

AR27

**PHILLIPS
PETROLEUM
COMPANY**
1976 Annual Report



CONTENTS

To the Owners	2
Questions About the Company	4
The Company in Brief	5
Financial Review	6
Natural Resources	8
Petroleum Products	17
Chemicals	20
Research	24
Phillips People	26
Corporate Citizenship	28
Report on Certain Legal Proceedings	30
Financial Statements	31
Ten-Year Statistics	39
Directors, Officers, Managers	44

"Phillips," "the Company," "we" and "our" are used interchangeably in this report to refer to the business of Phillips Petroleum Company and its consolidated subsidiaries. Where reference is made to a particular company, it is wholly owned unless otherwise stated. The Company's consolidation policy is to include in financial statements the accounts of companies in which more than 50% interest is held.

Garden Scene, K-Resin, Marlex, Poly Slik, Ryton and Solprene are trademarks for the Company's products named in this report.

highlights

OPERATIONS

NATURAL RESOURCES

- Worldwide petroleum liquids production rises, although reserves decline.
- Norwegian North Sea oil output averages 279,000 gross barrels a day.
- Development of U.S. coal and uranium reserves continues.



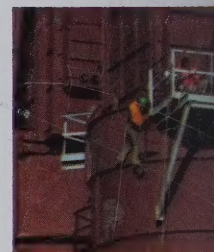
PETROLEUM PRODUCTS

- Refining, transportation and marketing operations improve performance.
- Sales prices increase, reflecting higher crude oil costs.
- New pipeline begins moving imported oil to U.S. inland refineries.



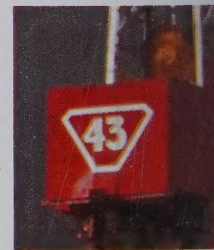
CHEMICALS

- Revenues rise as volumes and prices for most products increase.
- Earnings drop slightly because of assets writedown in fibers operations.
- Major chemical capacity expansions completed or undertaken.



ABOUT THE COVER:

In its search for petroleum, Phillips pushes into many remote, rugged areas around the globe. Here, near Ivanof Bay on the Alaskan Peninsula, the Company is drilling a deep exploratory well, which will be completed in 1977 at an estimated cost of more than \$14 million.



STATISTICAL

FINANCIAL

	1976	1975
Total revenues	\$5,836,900,000	\$5,212,900,000
Net income	\$ 411,700,000	\$ 342,600,000
Per average share outstanding \$	5.39	\$ 4.50
Return on average total assets ..	8.7%	8.3%
Dividends paid	\$ 133,700,000	\$ 121,800,000
Per share	\$ 1.75	\$ 1.60
Average shares outstanding	76,391,000	76,146,000
Capital expenditures	\$ 764,400,000	\$ 729,200,000
Total assets at year-end	\$5,068,500,000	\$4,544,900,000

OPERATING — net barrels daily

Crude oil produced		
United States	115,000	118,000
Outside U. S.	138,000	119,000
Natural gas liquids produced ...	131,000	128,000
Total liquids produced	384,000	365,000
Crude oil refined	318,000*	370,000
Petroleum products sold	577,000*	611,000
Natural gas produced — net thousands of cubic feet daily ..	1,380,000	1,455,000

*Decreases from 1975 figures influenced by sale of West Coast refining and marketing properties on April 1, 1976.

to the owners

In 1976 your Company made major efforts to meet the consumer's demand for energy. We increased our worldwide petroleum liquids production, improved our U.S. oil transportation system and achieved better operating efficiencies in petroleum refining and marketing activities. Equally important, we continued to expand and diversify the Company's natural resource base to help meet future energy needs.

The Company's earnings were \$411,700,000, or \$5.39 a share, compared to 1975 earnings of \$342,600,000, or \$4.50 a share. Earnings represented a return on average total assets of 8.7%, slightly higher than the 8.3% achieved in 1975. Revenues were \$5,836,900,000, or 12% above the previous high of \$5,212,900,000 in 1975.

Rising economic activity in the U.S. strengthened prices for petroleum products and generated higher demand and prices for most chemicals.

The Company's worldwide crude oil production rose 7% during the year. Oil production increased in Nigeria and in the Norwegian North Sea. Output from Ekofisk operations in the North Sea, where Phillips has a 37% interest, reached an average of 348,000 gross barrels a day during December. Our U.S. production of crude oil and natural gas continued to decline, reflecting an industrywide trend.

To improve our ability to get petroleum products to consumers as efficiently as possible, we further streamlined our marketing operations. Construction was completed on a partly owned pipeline which transports imported crude oil from the Gulf Coast to our Kansas City, Kansas, refinery.

In our chemicals business, we finished major plant expansions to meet increasing demand for plastic resins, rubber chemicals and certain chemical feedstocks. Work continued on expansion in production capacity of several basic chemicals including ethylene.

Meeting 1977 Demands

Looking ahead, we expect our crude oil output to continue growing. Most of the increase will come from the Norwegian North Sea. During the year we also expect to begin oil production from the North Slope of Alaska

and from discoveries in Indonesia. Natural gas production will increase with the start of deliveries of Norwegian North Sea gas to continental Europe. Domestic gas production is expected to remain at about the same level as in 1976.

The Company will continue to make major investments to find and develop energy reserves both in the U.S. and abroad. This effort will place heavy emphasis on developing new oil and natural gas reserves in the U.S. as well as other domestic resources, especially coal and uranium.

We anticipate that demand for our chemicals will increase as the economies of the U.S. and other countries improve. Expansions in plant capacity now under way are designed to help meet those demands.

Industrywide, demand for petroleum products in the U.S. is expected to increase 5.4% to around 18 million barrels a day. This compares with a 6.6% increase registered in 1976. U.S. oil output will remain unchanged, even with expected production from the Alaskan North Slope in the last half of 1977. Increased demand will have to be met by importing more oil and finished products.

Energy Outlook

In 1976 petroleum imports totaled nearly 7.3 million barrels a day. In 1977 imports are expected to be around 8.3 million barrels a day, equal to approximately 45% of total domestic demand. The largest share of this imported oil will come from Middle East nations belonging to the Organization of Petroleum Exporting Countries. OPEC oil prices have risen steadily, with the latest increase coming in early 1977.

In dollar terms alone, heavy reliance on energy from other countries is an expensive policy for the U.S. to follow. In 1977 the cost to American consumers of imported oil will increase to around \$100 million a day. This cost will keep rising with expected increases in both the volume and price of imports.

The future availability of foreign oil must be considered as well. Recent studies point out that in the early 1990s world oil production is expected to peak. The result will be intensified competition among nations for remaining supplies.

The outlook for natural gas also raises cause for concern. For years the United States has slipped through the winter months on the thin edge of a natural gas crisis. This past winter, abnormally cold weather in the eastern sections of the country created a demand for natural gas far beyond available supply. To assure enough gas for homes, schools had to be closed and many plants shut down. More than one-and-a-half million wage earners were laid off. Businesses large and small were adversely affected.

Toward Energy Solutions

The effects of the natural gas shortage and increasing oil imports underscore the need for us as a nation to take prompt, constructive action on the energy situation. There is a growing consensus on what steps should be taken. These include allowing increased oil production on the outer continental shelf, moving steadily toward a complete phase-out of federal controls on crude oil and removing federal price controls on newly discovered natural gas.

In addition, work on a number of other energy initiatives should be intensified. These include accelerated use of coal, broader use of nuclear power and expanded research into the new energy frontiers of coal gasification and liquefaction and solar power.

Oil companies have already begun to work on these initiatives. Their technological know-how and their willingness to take financial

risks have already resulted in significant contributions to the development of other energy resources. Barring oil companies from engaging in this type of activity, as some people advocate, would retard energy development and create adverse effects throughout the economy. The best interest of consumers will be served by vigorous, open competition in the search for and production of energy.

We believe oil companies also can help improve the energy situation by highlighting the nation's need to conserve energy. While the responsibility to use fuel more wisely is shared by every consumer, energy producers have an obligation to set the pace. Phillips energy conservation program, now in its fourth year, has achieved savings equivalent to more than 13 million barrels of oil. Even more rigorous goals have been set for 1977.

We also believe energy companies have a responsibility to take an active role in the dialogue on energy. In 1976 Phillips people carried out an extensive program of public speeches, radio and TV appearances, newspaper interviews and visits to universities.

In our communications with the public, we have stressed that the cost of energy will continue to rise. Some segments of society are severely burdened by these high energy costs. This is a problem that can and must be solved. It can be solved in part by creation of more jobs by industry. This means that industry must be encouraged to expand. For industry to expand, adequate energy must be assured.

America has abundant energy resources. To develop these resources efficiently, government and industry must work together. As a producer of energy, your Company has the capability to make important contributions. We have a good financial base, a record of solid technical accomplishment and a more diverse supply of energy resources than ever before.

For the Board of Directors,

Wm. E. Rouse

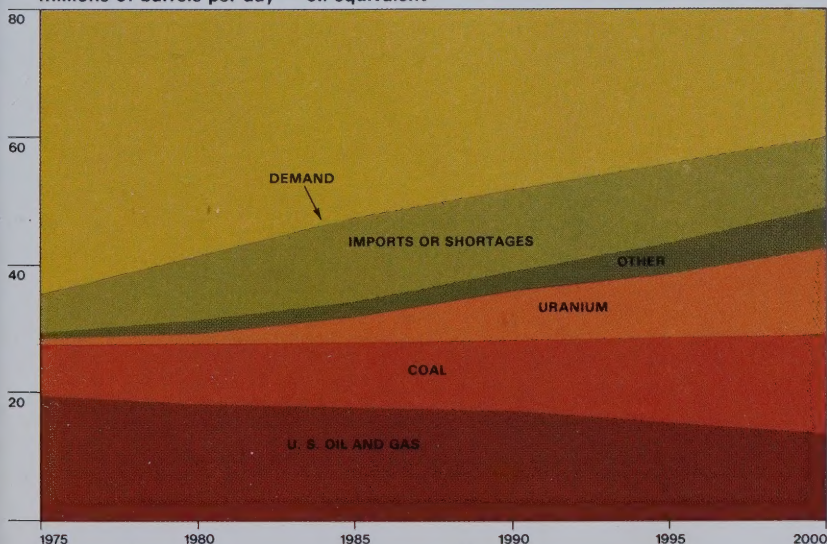
President and
Chief Operating Officer

March 22, 1977

J. Martin

Chairman and
Chief Executive Officer

U. S. ENERGY SUPPLY AND DEMAND
millions of barrels per day — oil equivalent



questions about the company

The following questions and answers are provided to furnish an insight into the Company's current status and future plans.

When will the Company reach its objective of balancing its worldwide crude oil production with its worldwide refining requirements?

By the end of 1978, our growing oil production is expected to put the Company in a self-sufficient position. The result will be greater stability and security of the raw material supplies for our refineries and chemical plants. This will strengthen the efficiency of our operations and improve our ability to meet the needs of our customers.

Over and above the expected growth in oil production, the Company's already substantial output of natural gas liquids will increase as new facilities go into operation in the Norwegian North Sea.

Why has Phillips production of crude oil and natural gas in the United States declined in recent years?

Virtually all major U. S. oil companies have experienced decreasing domestic production. Developed reserves are being depleted faster than new reserves can be found. Although sizable undiscovered resources of both oil and natural gas are believed to exist in the U. S., these reserves are not as easy to find as they were in the past. They lie at great

depths or in frontier areas, where exploration requires massive investments.

The stimulus to make such investments has been dampened by federal price controls, in effect on crude oil since 1973 and on interstate natural gas since 1954. In addition, environmental concerns and other factors have slowed the granting of drilling leases in areas of greatest potential such as offshore regions.

Is the Company's overseas production a reliable source of crude oil?

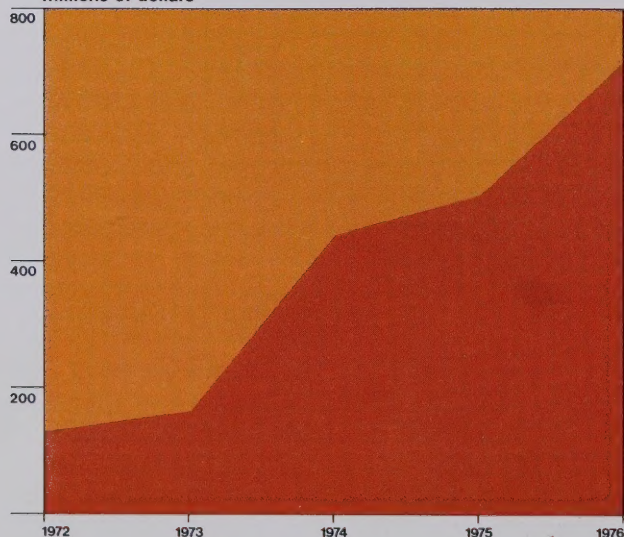
More than half of the Company's crude oil production originates outside the U. S. Any supply from a foreign source carries a certain amount of risk. The Company's major successes, however, have been in areas where we believe we can depend on future production. For example, the major portion of our foreign oil is produced from the Norwegian North Sea. We have an excellent working relationship with Norway, a mature trading nation with a long history of honoring its contractual commitments.

How much of the Company's income is taxed away?

U. S. and foreign income taxes reduced 1976 income by \$620 million — equivalent to 60 cents on each dollar of pre-tax income.

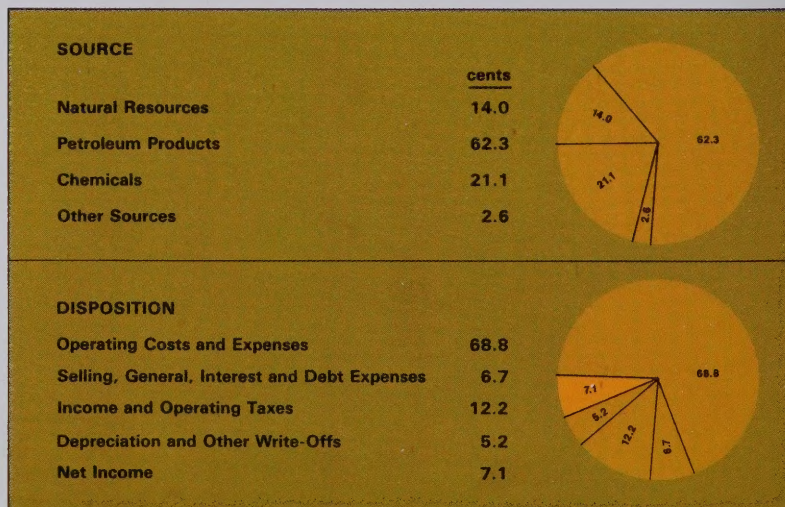
The Company pays other kinds of taxes as well, such as property tax, severance taxes

INCOME AND OPERATING TAXES*
millions of dollars



*Before accounting change in 1974.

SOURCE AND DISPOSITION OF 1976 REVENUE DOLLAR



THE COMPANY IN BRIEF

on oil and gas production and social security tax. In 1976 these taxes totaled \$93 million. Taken together, income and operating taxes reduced pretax income by 63%, compared with a 41% tax load 10 years ago.

Moreover, these figures do not reflect the double taxation that occurs when our shareholders pay taxes on dividend payments, which have already been taxed as corporate profits.

What will be the thrust of Phillips investments in the future?

In the next several years, Phillips will be investing substantial sums of money to develop petroleum resources in the U. S. and to bring into production our reserves of coal and uranium. Major investments also will be required to develop oil and gas fields already discovered in the North Sea, Indonesia, Nigeria and elsewhere. In the chemicals business, the Company will continue to strengthen its current line of products where expansion is economically justified.

Overall, our aim is to remain flexible in determining investment options. We are staying alert for investment opportunities both in and outside the energy and chemical fields.

What will be the effect of recent price increases for interstate natural gas?

The immediate impact on both the Company's performance and consumers will be small. Less than 4% of our sales volume was affected by the Federal Power Commission's ruling in November 1976 to raise the price of newly developed natural gas sold in the interstate market from 53 cents to \$1.42 per thousand cubic feet.

Despite this and other price increases the FPC allowed, the average price Phillips received in 1976 for its natural gas sold in the interstate market was only 38 cents per thousand cubic feet. This is because a large portion of our interstate sales is controlled at substantially lower prices than those permitted for newly discovered gas. Some of our gas is sold at prices as low as 15 cents per thousand cubic feet. As a result, our interstate natural gas consumers are not faced with immediate high price increases. Instead, the price they pay will rise gradually over a period of years.

Phillips Petroleum Company finds and develops natural resources and transforms them into fuels and chemicals. Phillips is an international company operating in 39 countries. With assets of \$5.1 billion, Phillips is owned by 120,200 stockholders and operated by 27,800 employees. Its major activities are carried out by three operating groups.

Natural Resources Group discovers and produces the raw materials used for manufacturing fuels and chemicals. The group has assets of \$2.2 billion and 6,300 employees, explores for energy resources in more than 20 countries and produces oil and natural gas in six of them. The group also has interests in other energy resources in the U. S., including coal, uranium, geothermal and oil shale.

Petroleum Products Group refines, transports and markets crude oil, natural gas liquids and petroleum products. It also provides feedstock for the production of petrochemicals. The group has assets of \$1.3 billion and 8,700 employees, operates five refineries in the U. S. and has interests in four refineries in other nations. In addition, the group operates thousands of miles of pipelines, a major marine shipping business and other product distribution facilities. It markets Company products through some 15,600 service stations, terminals, bulk plants and marinas.

Chemicals Group manufactures and markets a broad range of petroleum-based chemical products. The group has assets of \$750 million, 8,600 employees and interests in 37 U. S. plants and 26 foreign operations. It has sales offices in more than 20 countries. The group is a major manufacturer of synthetic rubber, carbon black, polyolefin plastics, cyclohexane for nylon manufacture and other special hydrocarbons for industrial and laboratory uses. The group also manufactures nitrogen fertilizer, synthetic fibers, fabricated plastic products, packaging and other products.

These three operating groups are supported by a number of staff organizations including a large research and development team. As a result of its research efforts, the Company has numerous products and processes, which are licensed in 31 countries.

Phillips is headquartered in Bartlesville, Oklahoma, where it was founded 60 years ago.

financial review

Total revenues for 1976 were \$5,836,900,000, an increase of 12% from 1975 revenues of \$5,212,900,000. Operations in the United States accounted for \$4,691,000,000, or 80% of total 1976 revenues.

Earnings for 1976 of \$411,700,000 were equivalent to \$5.39 a share. This compares with earnings in 1975 of \$342,600,000, or \$4.50 a share.

Assets at the end of 1976 totaled \$5,068,500,000. During the year assets increased \$523,600,000. The rate of return on average total assets was 8.7%. Domestic operations produced a return of 10% while the return on foreign operations was 6%.

Foreign currency translation losses reduced 1976 earnings by \$37,300,000. Losses in 1975 from foreign currency translations were not material. Earnings also were reduced by \$12,400,000 because of a write-down of certain fixed assets in our fibers operations and by an \$8,000,000 loss from the cancellation of a tanker construction contract.

Taxation by all levels of government, both foreign and domestic, continued to increase. Total income taxes were \$619,800,000, equal to 60% of earnings before income taxes.

Income taxes on domestic operations totaled \$200,300,000, equal to 41% of domestic earnings before income taxes. Income taxes on foreign operations totaled \$419,500,000, equal to 78% of foreign earnings before income taxes.

Dividend payments totaled \$133,700,000. Effective with the dividend paid June 1, 1976, the quarterly dividend rate was increased to 45 cents a share from 40 cents a share.

Funds from operations increased 13% to \$814,700,000. This amount was not sufficient to cover dividends, debt repayment, capital expenditures and other requirements. The deficiency, \$280,800,000, was made up primarily through borrowings and the sale of assets and stock.

Long-term debt at the end of 1976, excluding the amount due within one year, totaled \$839,000,000, a 6% decrease from 1975. Debt repayment for 1976 totaled \$113,900,000. New borrowings totaled \$55,100,000.

CAPITAL EXPENDITURES

Capital expenditures in 1976 totaled \$764,400,000, 5% higher than the \$729,200,000 spent in 1975. Capital expenditures for U. S.

FIVE-YEAR SUMMARY OF REVENUES AND EARNINGS

	1976	1975	1974	1973	1972
REVENUES					
	(in millions)				
Petroleum operations —					
United States	\$4,105.9	\$3,754.4	\$3,318.5	\$1,924.5	\$1,772.8
Outside U. S.	1,018.0	978.6	1,131.9	503.1	255.1
Chemical operations	1,399.7	1,208.5	1,486.1	964.7	700.0
Intergroup sales	(686.7)	(728.6)	(830.8)	(318.8)	(160.4)
Total revenues	\$5,836.9	\$5,212.9	\$5,105.7	\$3,073.5	\$2,567.5
EARNINGS					
Petroleum operations —					
United States	\$ 227.5	\$ 166.0	\$ 177.9	\$ 98.7	\$ 103.3
Outside U. S.	102.0	93.6	82.6	56.9	14.6
Chemical operations	82.2	83.0	169.2	74.8	30.5
Total earnings	\$ 411.7	\$ 342.6	\$ 429.7*	\$ 230.4	\$ 148.4

*Before cumulative effect of accounting change.

operations totaled \$443,900,000. Capital expenditures for foreign operations totaled \$320,500,000. Distribution was as follows:

CAPITAL EXPENDITURES (millions of dollars)		
	1976	1975
Natural Resources	\$493.0	\$519.8
Petroleum Products	119.7	143.7
Chemicals	104.5	56.2
Other	47.2	9.5
Total	\$764.4	\$729.2

In 1977 capital expenditures will be higher. A major share of those expenditures will be for exploration and development of oil and natural gas reserves.

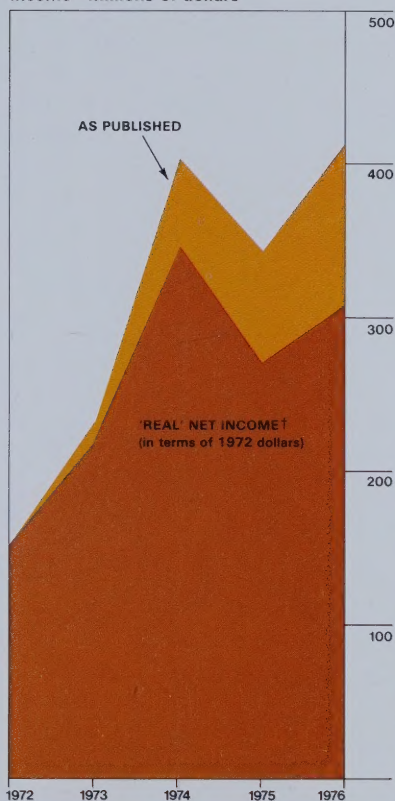
The Company's common stock, its only class of voting securities, is traded principally on the New York Stock Exchange. The following table presents the high and low sales prices for Phillips common stock on the exchange. Also shown are the dividends paid on the stock for each quarterly period during the past two years:

	QUARTER			
	First	Second	Third	Fourth
PRICE PER SHARE				
1976 High	\$58 ⁷ / ₈	\$64 ³ / ₄	\$63 ⁵ / ₈	\$66 ¹ / ₄
Low	49 ¹ / ₂	53 ³ / ₄	56 ³ / ₄	55 ³ / ₈
1975 High	46 ¹ / ₄	59 ⁵ / ₈	60 ³ / ₈	58 ¹ / ₂
Low	37	37 ⁵ / ₈	51 ³ / ₈	45 ¹ / ₂
DIVIDENDS PER SHARE				
1976	\$.40	\$.45	\$.45	\$.45
1975	.40	.40	.40	.40

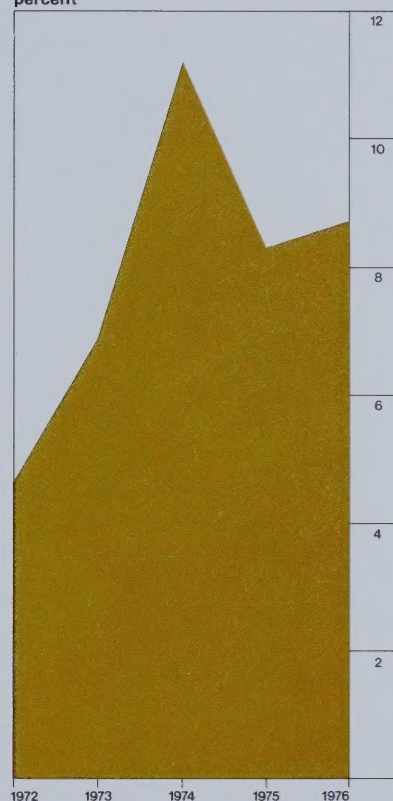
Presented on pages 31-42 is comprehensive financial information, including 10-year financial and operating reviews.

Copies of the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission may be obtained by writing to Mr. Harvey W. Thompson, Secretary, Phillips Petroleum Company, Bartlesville, Oklahoma 74004.

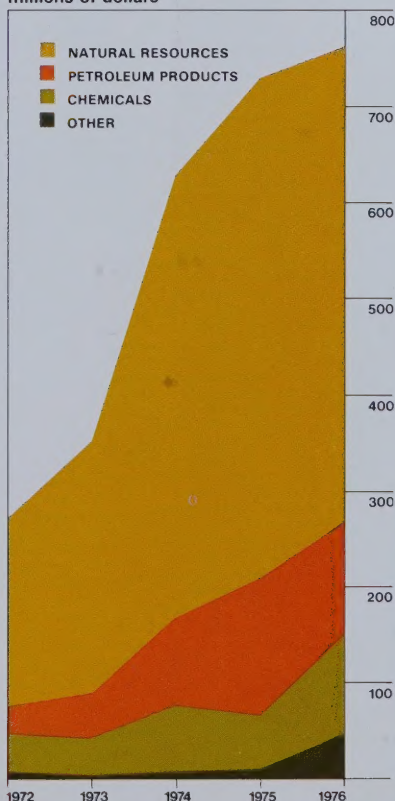
NET INCOME adjusted to 'real' net income—millions of dollars



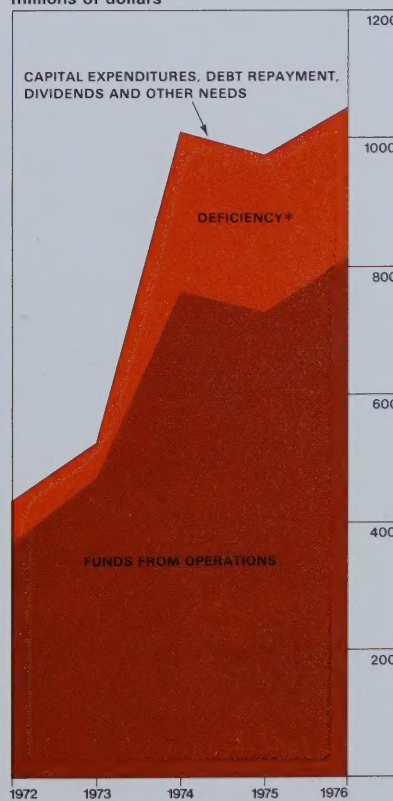
RETURN ON TOTAL ASSETS* percent



CAPITAL EXPENDITURES millions of dollars



FUNDS AVAILABLE AND EXPENDED millions of dollars



*Before accounting change in 1974.

†Based on GNP Deflator.

*Made up by borrowings and sales of assets and stock.

natural resources

The Company's natural resources actions in 1976 were focused on increasing production of oil and gas from known reserves, broadening the worldwide search for new petroleum reserves in areas of acceptable risks and further developing a diversified energy resource base in coal and uranium.

The Company's worldwide crude oil and natural gas liquids production rose 5% in 1976, reflecting steadily increasing oil output from our operations in the Norwegian North Sea and Nigeria, as well as higher natural gas liquids production in the U. S. For the second year in a row, the Company's overseas oil production exceeded domestic output. Average prices for both U. S. and foreign crude oil were higher.

Liquid hydrocarbon production increased despite the loss of production in Venezuela, which was nationalized at the end of 1975. In that year Phillips Venezuelan production amounted to 15,500 barrels of oil and 1,800 barrels of natural gas liquids a day.

LIQUID HYDROCARBONS PRODUCED	Net Barrels Daily	
	1976	1975
UNITED STATES		
Crude oil	115,300	118,400
Natural gas liquids	130,800	125,900
Total U. S.	246,100	244,300
OUTSIDE UNITED STATES		
Crude oil	137,300	118,600
Natural gas liquids	300	2,100
Total outside U. S.	137,600	120,700
WORLDWIDE		
Crude oil	252,600	237,000
Natural gas liquids	131,100	128,000
Total worldwide	383,700	365,000

The Company's worldwide production of natural gas declined but the trend should be reversed in 1977 with the start-up of natural gas production in the Norwegian North Sea. Revenues from natural gas sales rose 19%, mainly because of higher prices in the U. S.

Phillips drilled or financially participated in the drilling of 84 exploratory wells. Of these, 36 resulted in oil and gas discoveries. Our capital and exploration expenditures to

acquire, find and develop oil and gas reserves were about the same as in 1975. They totaled \$508,200,000, including dry hole costs of \$63,500,000.

DRILLING STATISTICS*	Exploratory		Development	
	1976	1975	1976	1975
UNITED STATES				
Gross wells	43	76	595	647
Net wells:				
Oil	5	5	91	101
Gas and gas condensate	3	6	36	45
Dry holes	10	33	34	26
Total	18	44	161	172
OUTSIDE UNITED STATES				
Gross wells	41	49	24	41
Net wells:				
Canada	1	3	2	1
Latin America	-	3	-	-
Europe	3	3	3	6
Africa	2	5	2	4
Middle East	1	2	-	-
Southeast Asia	6	5	1	1
Total	13	21	8	12
Oil	3	3	6	10
Gas and gas condensate	2	1	2	-
Dry holes	8	17	-	2

*Excludes farmout arrangements.

Reserves

Despite our extensive exploration and development program, the Company's estimated worldwide proved reserves of liquids (crude oil, condensate and natural gas liquids) declined 6%, whereas natural gas reserves remained essentially unchanged from the totals reported at the end of 1975. In the U. S. additions resulting from exploration, field extension and enhanced recovery programs were more than offset by production and by revisions to prior reserve estimates. The revisions were required because our interest in the Prudhoe Bay Unit in the North Slope of Alaska was established at a lesser value than anticipated. Reserve estimates are based on current reservoir information, technology and economics. Although the producibility of these reserves is reasonably certain, it should be recognized that reserves cannot be measured precisely. At year-end

Drilling in central Utah and other Rocky Mountain areas highlighted the Company's 1976 exploration effort in the lower 48 states.



Phillips estimated proved reserves of liquids and natural gas were:

	1976	1975
Liquids (millions of barrels)		
U. S.	555	696
Outside U. S.	1,148	1,114
Natural gas (billions of cubic feet)		
U. S.	5,196	5,334
Outside U. S.	6,020	5,883

Reserves outside the U.S. include the Company's share of reserves subject to production-sharing contracts with other countries' governments.

Reserves of Pacific Petroleum Ltd. are not included in these figures, nor are the reserves of any other nonconsolidated company.

In addition to Phillips owned reserves, 261 million barrels of liquids and 1,777 billion cubic feet of natural gas are estimated

to be available to the Company in the U. S. through contracts and other arrangements. The liquids obtained by these arrangements account for the relatively high ratio of natural gas liquids to crude oil production reported by the Company.

North America

Phillips U.S. crude oil and natural gas production continued to decline, reflecting an industrywide trend. The Company's oil production dropped 3% and natural gas output was off 5%. Offshore activities accounted for 13% of crude oil production and 12% of natural gas production. Natural gas liquids production increased 4% as new facilities, designed to extract more liquids from our processed natural gas, went into operation.

Phillips drilled or financially participated in 43 exploratory wells in 1976, versus 76 the previous year. Development wells totaled 595 in 1976, compared with 647 in 1975. Phillips participated in an additional 141 exploratory wells and 91 development wells through farmout arrangements, by which other companies drill the wells to earn an interest in Phillips acreage.

A 15-well development program was completed and production began in the Union Island Field, the second largest gas field in California. Production from the field averaged 47 million cubic feet of gas a day. Phillips has a 42% interest in the field. In 1977 more development wells will be drilled.

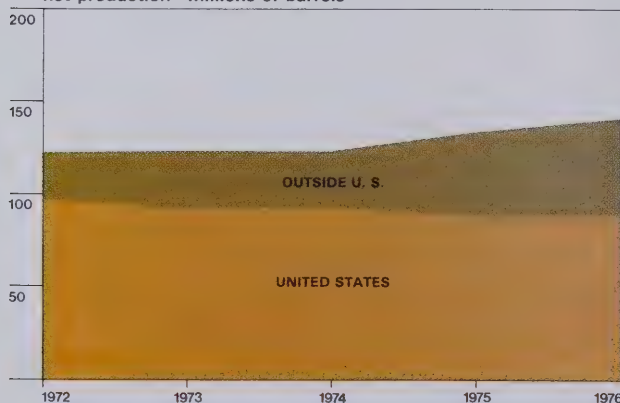
In the Gulf of Mexico 100 miles off the Louisiana coast, we completed an 11-well development program in the West Cameron Field. Phillips has a 20% interest in this gas field, discovered in 1975. The field went into full production at the rate of 70 million cubic feet of gas a day.

Our exploratory activity in the "Lower 48" focused on the Rocky Mountains Overthrust Belt extending from Alberta, Canada, through Idaho, Wyoming and into Utah. We have under lease more than 650,000 acres in this region. As operator Phillips drilled one Overthrust Belt well in Idaho and farmed out the drilling of another in central Utah. Drilling and seismic activities will continue in 1977.

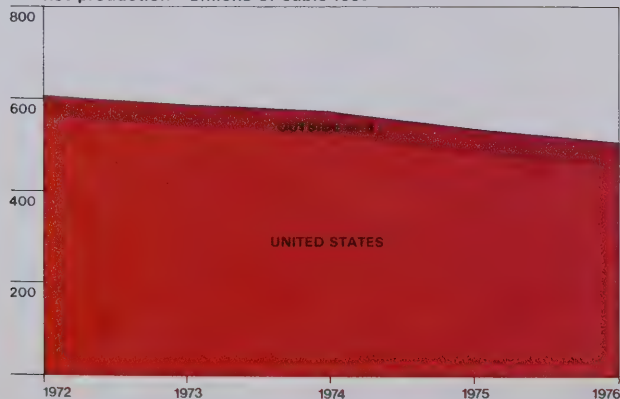
In the 1976 federal lease sale for tracts in the outer continental shelf off the East Coast,

Ekofisk Center, the Phillips Group's massive production complex in the Norwegian North Sea, was the scene of major construction in 1976. Atop the central platform, right center, the world's largest offshore natural gas processing plant was completed and a satellite communication system installed.

CRUDE OIL AND NATURAL GAS LIQUIDS
net production—millions of barrels



NATURAL GAS
net production—billions of cubic feet



Natural gas from Ekofisk Center will begin flowing in 1977 to this new distribution center at Emden, West Germany.



the Company participated in 18 bids totaling \$208 million. Phillips share of the bids totaled \$41.9 million. None were successful. Phillips plans to evaluate tracts offered in subsequent lease sales and will be an active bidder on tracts which justify the economic risks.

Negotiations were completed for Phillips participation in Prudhoe Bay production from Alaska's North Slope. Production is expected to get under way in mid-1977 and reach 600,000 barrels a day before year-end. Phillips share will be about 10,000 barrels a day.

On the Alaskan Peninsula, Phillips began its first exploratory well on Bristol Bay Native Corporation lands. The well will be completed in 1977. We hold development and exploratory rights on three million acres in the area.

In Canada Phillips has varying interests in 21 million acres, mostly in the Canadian Arctic Islands. The Canadian Arctic has been established as principally a gas area. Extensive seismic work will continue in 1977.

Pacific Petroleum Ltd., a 48% owned integrated Canadian company, made 38 net oil and gas discoveries and drilled 108 net successful development wells in 1976. Its production included 38,600 net barrels of crude oil and natural gas liquids per day, 6% lower than in 1975. Its natural gas revenues were up 34% and its natural gas production was 342 million cubic feet per day, down 21%.

To help stem the natural declines in oil and gas production from mature domestic fields, Phillips continued efforts to maximize results from both secondary and tertiary recovery programs. Secondary recovery techniques, principally waterflood and gas injection, have been in use for many years. During 1976, 39% of our U. S. oil production came from such programs. Tertiary recovery techniques are still in the experimental stage. Phillips moved forward on two such programs, one in the old Oklahoma Burbank Field and the other in the Lick Creek Field, an 18-year-old field in southwest Arkansas.

U. S. natural gas revenues increased significantly in 1976. The volume of gas available for sale continued to decrease, but the average price of natural gas increased as a result of additional sales in the higher priced

intrastate market and the Federal Power Commission's decision to allow higher prices on interstate gas from newer wells. In 1976 about 77% of our gas sales in the U. S. were made in interstate markets, compared with 80% of sales in 1975. Our average price of gas sold in the U. S. was 47 cents per thousand cubic feet, 11 cents higher than in 1975. In addition, there was an increase in the delivered price paid by two Japanese utilities for liquefied natural gas from our 70% interest Kenai, Alaska, liquefaction plant.

Norway

A 30-well development drilling program was finished early in the year in the Ekofisk Field in the Norwegian North Sea, where Phillips holds a 37% interest in the Ekofisk area operation. In October gross daily crude oil production reached a record average of 349,000 barrels a day from the Ekofisk Field. For the year, production averaged 279,000 barrels a day, 47% higher than 1975 output.

In early 1976 production in the Ekofisk Field was curtailed because of a pipe replacement program in the field gathering systems. In November 1976 production was stopped entirely for almost eight days so that alterations could be made for the eventual tying in of production from other nearby fields. Equipment also was installed to allow reinjection of natural gas liquids into the Ekofisk Field.

The natural gas liquids must be conserved by reinjection because facilities to process and store them at the terminal in Teesside, England, will not be completed until late 1977. Construction of these facilities has been delayed by labor problems. When the terminal is completed, the natural gas liquids will reach England through the 220-mile pipeline, designed to handle both liquids and crude oil. Oil began flowing through the pipeline in 1975.

Construction and testing of the 274-mile natural gas pipeline to Emden, West Germany, were completed. The line is slated to be put into operation in 1977. Natural gas deliveries are expected to exceed 10 trillion cubic feet over the life of Ekofisk and six other fields in the area.

Discoverer Seven Seas, a new drillship employing the latest deepwater drilling technology, made its first probe for a Phillips group off Africa's Ivory Coast.



Work went forward to develop these six other oil and gas fields. By year-end, development drilling was nearly completed on the West Ekofisk Field and work was under way on the Cod Field. Production is expected to begin from both of these fields in 1977. Also in 1977, development drilling will begin on a fourth structure, the Tor Field. Development drilling in the other three fields, Edda, Eldfisk and Albuskjell, is scheduled to begin after mid-1978. All of the fields will be linked by pipeline to Ekofisk Center, a central processing and transportation complex.

Some 20 miles from the Ekofisk area, Statoil, the Norwegian state oil company, and a three-company group including Phillips began exploratory drilling on a newly licensed 48,000-acre tract. Statoil is the operator and its participation will vary from 50% to 75% depending upon peak production rates of any hydrocarbons discovered. The remainder will be shared by the members of the group, in which Phillips has a 52% interest.

United Kingdom

In the United Kingdom sector of the North Sea, Phillips has an interest in five oil fields and three natural gas fields. Two of these fields are in commercial operation, the Hewett and North-of-Hewett gas fields.

Natural gas production in the Hewett Field, which went into operation in 1969, reached record levels of more than one billion cubic

feet a day during five months of 1976. Production to Phillips 19% interest averaged 133 million cubic feet per day during the year.

Natural gas from the Hewett Field is sold to the British Gas Corporation, a government gas distribution agency. To meet increased demand, Phillips and partners proceeded with development of the nearby North-of-Hewett Field, which went into production around year-end.

Two oil discoveries, Renee and Thelma, were drilled in 1976. Phillips has a 34% interest in Renee and a 35% interest in Thelma. Evaluation drilling started on both fields to determine their commercial viability.

Nigeria

Net production to our 22½% interest in Nigerian operations averaged 33,300 barrels of oil a day, 17% higher than in 1975. During the year two more fields, Ebegoro and Ogbogene, were brought into production as part of our ongoing development program. At year-end, 12 of 24 of our Nigerian fields were in production.

Indonesia

One gas condensate discovery and two oil discoveries were made on Salawati Island, Irian Jaya, Indonesia, on the 10-million acre Teluk Berau contract area. One gas discovery and three oil discoveries were made during 1974 and 1975.

The seven discoveries were made by Phillips as operator for a group and Pertamina, the Indonesian State Oil Company. New contract terms were negotiated in 1976. After recovery of exploration and development costs, Pertamina will receive 85% of the production and the Phillips Group will share the other 15%. Phillips has a 50% interest in the group. Initial crude oil production is scheduled to begin in 1977 at a rate of 40,000 gross barrels a day.

Phillips has a 50% interest in a group that made an oil discovery during the year on the three-million acre Northwest Kalimantan production-sharing contract area. Plans were made to begin production in 1977.

New Exploratory Areas

We obtained a 48% interest in four leases off the west coast of Ireland during the year. Seismic work was undertaken and the first well is expected to be drilled in 1978.

Extensive drilling went forward at the Nose Rock prospect in New Mexico to further evaluate the size of the Company's uranium reserves.

PHILLIPS COAL INTERESTS





Preparations were made to drill two exploratory wells on a 70% interest concession in the Chaco Basin of south central Bolivia.

Plans for a 1977 exploratory drilling program in Colombia were made. Phillips has a 100% interest in a 980,000-acre concession in the foothills east of the Andes.

Phillips obtained a license for exploration activities in an offshore area south of New Zealand. One dry hole was drilled.

Deepwater Exploration

Phillips has a 25% interest in the SEAGAP Group formed in 1972 to conduct deepwater exploration. In 1976 extensive seismic work was completed in the Caribbean and along the west and east coasts of Africa. Most of the seismic information was gathered in water depths greater than 600 feet.

In 1976 the group also contracted for use of a highly advanced deep-sea drillship, the *Discoverer Seven Seas*. It is capable of drilling in water depths up to 6,000 feet. In November the ship began drilling its first exploratory well, a 14,000-foot test off the Ivory Coast of Africa in relatively shallow water.

NET OIL AND GAS ACREAGE AT YEAR-END

UNITED STATES

Total	6,570,000
Developed	1,211,000

OUTSIDE UNITED STATES

Canada	3,174,000
Latin America	3,624,000
Europe	1,457,000
Africa	7,185,000
Middle East	1,753,000
Southeast Asia	24,960,000
New Zealand and Australia	23,678,000
Total outside U. S.	65,831,000
Developed outside U. S.	124,000

Five years ago Phillips embarked on a program to diversify its energy resource base beyond oil and gas. In 1976 significant progress was made in several areas.

Coal

Phillips holds options and leases on 620,000 acres containing an estimated three billion tons of lignite coal reserves. Most of these reserves are located in the Wilcox

Trend in eastern Texas, southern Arkansas, Mississippi and Louisiana.

Economic feasibility and mine planning studies on the Wilcox Trend continued in 1976, with initial coal production expected in the early 1980s.

Our coal development plans are designed to help meet the growing energy needs of the Gulf Coast, where electric utilities are being encouraged to utilize coal as their supplies of natural gas dwindle.

Uranium

In 1975 Phillips found uranium in northwest New Mexico, where the Company holds leases on 69,000 acres. Uranium reserves of 25 million pounds have already been proved and exploratory drilling indicates the probability of additional reserves.

The rock containing the uranium oxide is at a depth of around 3,500 feet. The first mine shaft will be started in 1977. Plans have been made to start construction of a mill in 1978. The mill will produce yellowcake, a partially refined uranium compound.

Production from the planned mine and mill will be around two million pounds of yellowcake a year. Negotiations for the sale of the yellowcake have been undertaken.

Geothermal

Phillips made a geothermal discovery in 1976 in northwest Nevada and a confirmation well was completed. Several other wells were drilled in southwest Utah to help determine the size of the geothermal reservoir discovered in 1975. Additional testing will help determine the commercial possibilities of this reservoir.

Oil Shale

In November the federal government granted a one-year suspension of the Company's oil shale operations in Utah. The suspension will allow time to resolve environmental problems as well as time for further studies directed toward reducing the cost of producing shale oil. Lease payments total \$53 million of which \$32 million has been paid by Phillips and its associates in the project. Certain environmental groups have filed suit against the Secretary of the Interior challenging the validity of the suspension.

Wastewater quality was improved at our Kansas City refinery by an innovative adaptation of a proven municipal waste treatment system. Bacteria growing on rotating disks of Phillips Marlex polyethylene plastic destroy pollutants in the water. The system requires less energy and land area than other methods.

petroleum products



The refining, supply and marketing segment of our business performed better than in 1975 when operations were unprofitable. Prices for petroleum products were higher, although federal regulations and competition in the marketplace prevented full recovery of increased operating and feedstock costs.

Feedstock Supplies

Imported crude oil continued to play a key role in meeting the raw material needs of our refineries. In 1976 imports averaged 121,400 barrels per day, or 38% of our total refinery runs, compared with 37% the previous year. Factors contributing to the rise in imports included the decline in U. S. oil production and federal allocation regulations which required us to sell our domestic oil to competitors.

With less domestic supplies available, it has become increasingly important to assure adequate amounts of imported oil to our large inland refineries at Borger, Texas, and Kansas City, Kansas. A major step in this direction came in November when crude oil began moving through the new 510-mile Seaway Pipeline. The line, in which Phillips has a 42% interest, extends from Freeport terminal on the Texas Gulf Coast to Cushing, Oklahoma, where it ties in to other lines. By year-end, Seaway was being used to make regular deliveries of imported oil to our Kansas City refinery. Later, Seaway will be instrumental in helping assure crude oil supplies to the Borger refinery.

We anticipate that Seaway eventually will be linked to Seadock, a deepwater terminal planned off the coast near Freeport. Proposed by Phillips and eight other companies, Seadock is designed to unload very large crude oil carriers bringing foreign crude oil to the United States. In January 1977, the federal government issued a license to proceed with development of the facility. A decision on whether to accept the terms of the license is expected by mid-year.

The Company's first very large crude oil carrier, the *S/S Phillips America*, was delivered in August. With a capacity of nearly two million barrels of crude oil, the vessel

transports Nigerian and Persian Gulf crude oil to deepwater Caribbean ports. From there the oil is shipped in smaller tankers for processing in Phillips U. S. refineries.

Phillips has 1.66% interest in the trans-Alaskan crude oil pipeline, which was nearing completion at year-end. It is scheduled to begin operation in mid-1977.

Refinery Runs

Our U. S. refineries, with the exception of the Kansas City refinery, operated generally at optimum rates during the year, allowing for essential downtime for maintenance and repairs. Runs at the Kansas City plant were substantially reduced by two major fires in the latter part of the year. Crude oil runs at all other domestic refineries averaged 98% of nominal capacity. Gasoline production averaged 47% of refinery yields.

CRUDE OIL CAPACITIES AND RUNS — 1976

Refinery	Average Barrels Daily	
	Capacity	Runs
Kansas City, Kansas	90,000	71,000
Borger, Texas	100,000	99,000
Sweeny, Texas	104,000	101,000
Woods Cross, Utah	23,000	23,000
Great Falls, Montana	6,000	5,000
Total	323,000	299,000*

*Does not include 75,000 barrels daily processed at Avon refinery in first quarter prior to sale of refinery on April 1, 1976.

In addition to crude oil processed, natural gas liquids runs totaled 87,000 barrels daily at Borger refinery and 55,000 barrels daily at Sweeny refinery.

The Company has stock interests of 50% or less in four companies operating refineries outside the United States. Our interests in their average daily refinery runs, in proportion to our stock interests, totaled 55,000 barrels daily, which was 67% of total capacity.

Feedstock Costs

Prices paid by the industry for foreign crude delivered to U. S. refineries ranged from \$13.26 to \$13.62 per barrel. The price of U. S. crude oil subject to federal controls rose 4% during the year, with the weighted average price rising from \$8.39 to \$8.75 a barrel. On September 1, the federal government lifted price controls on production from stripper wells, which are wells that produce 10 barrels a day or less. At year-end stripper oil, which makes up about 13% of Phillips refinery crude oil runs, was being purchased for an average of \$14.20 a barrel.

Sale of West Coast Assets

In April Phillips sold its West Coast refining, terminaling and marketing properties. The assets sold consisted of Avon Refinery near San Francisco, petroleum inventories and approximately 725 service stations plus related terminals and bulk plants. The sale grew out of a divestiture order of a U. S. District Court.

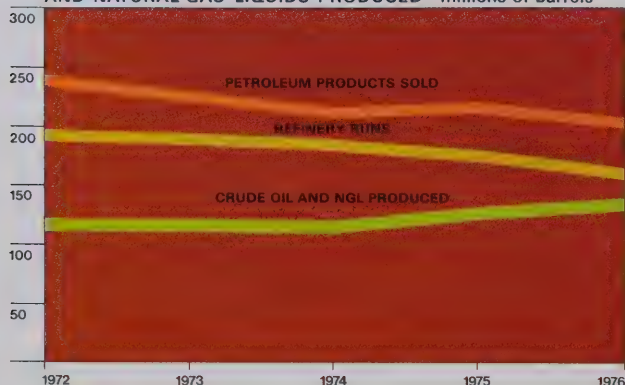
Marketing

The volume of petroleum products sold decreased from the volume sold in 1975. All of the decrease stemmed from the sale of our West Coast refining and marketing properties. Excluding sales from these properties, the volume of products sold increased 6%.

Prices for residual fuel, distillates and general refinery products (mainly aromatics, lubricating oils and naphtha), were exempted from the federal mandatory price and allocation program during the summer. Products under mandatory controls at year-end were gasoline, liquefied petroleum gas and aviation fuels.

Seaway Pipeline, completed late in the year, enabled movement of foreign oil from the Texas Gulf Coast to Midwest refineries, including our Kansas City facility.

PETROLEUM PRODUCTS SOLD, REFINERY RUNS, CRUDE OIL AND NATURAL GAS LIQUIDS PRODUCED—millions of barrels



To improve the earnings performance of our marketing segment, a major reorganization of marketing operations started early in 1976 and will continue through 1977. Efficiency will be increased by consolidating administrative and marketing service activities being performed by many smaller units.

Marketing outlets were also a focus of improved efficiency, with emphasis on reducing the number of marginal facilities and increasing sales volumes at the remainder. We had 600 less outlets at the end of 1976 than at the close of the previous year, excluding those involved in the West Coast sale.

PETROLEUM PRODUCTS SOLD	Average Barrels Daily	
	1976	1975
UNITED STATES		
Automotive gasoline	272,000	304,000
Aviation fuels	25,000	24,000
Distillates	87,000	99,000
Liquefied petroleum gas	101,000	97,000
Other products	43,000	31,000
Total U. S.	528,000*	555,000
Outside U. S.	49,000	56,000
WORLDWIDE	577,000	611,000

*Decreases from 1975 figures influenced by sale of West Coast marketing properties on April 1, 1976.



chemicals

Sales from our worldwide chemical operations increased over the previous year, although earnings declined slightly as the result of a writedown of certain fixed assets in our fibers business.

Chemical sales totaled \$1,229,600,000 in 1976, compared with \$1,057,400,000 in 1975. These figures do not include sales by one domestic and 16 foreign-based companies in which Phillips owns interests of 50% or less. Chemical earnings, including our share of the net income from these interests and other sources, accounted for 20% of total Company earnings in 1976, compared with 24% in 1975.

The economic recovery, emerging early in the year in the U. S. and later elsewhere in the world, provided the major thrust behind the good results of our chemical business. As the recovery leveled off during the year, the diversification of our product lines and the geographic distribution of chemical assets helped to stabilize our performance by protecting the business from severe fluctuations in revenues. Prices and volumes for

A new 48-inch diameter high-density polyethylene pipe, the largest made in the U. S., was added to the Phillips line of plastic pipe products.



most of our chemical products were higher in 1976 than in the previous year.

Feedstocks and Specialty Chemicals

Revenues from worldwide sales of petrochemical feedstocks and specialty chemicals increased 29% over 1975. Petrochemical feedstocks include ethylene, propylene, paraxylene, cyclohexane and aromatics. Specialty chemicals include high-purity hydrocarbons, solvents, drilling mud additives, petro-sulfur compounds and mercaptans.

Ethylene sales volumes including transfers for our own uses increased 11% over 1975. Prices also were higher for ethylene, a major contributor to chemical revenues. Heavy demand from our polyethylene plants and continuing demand from our contract customers enabled us to run our ethylene facilities at near capacity in contrast to industry runs, which were at lower rates.

Construction continued on a one-billion pound annual capacity addition to our ethylene facility at Sweeny, Texas. It is scheduled for completion by mid-1978.

Our chemical complex operated by Phillips Puerto Rico Core Inc., near Guayama, Puerto Rico, ran at an average 43,500 barrels a day, 87% of capacity during 1976. This complex makes chemical feedstocks and motor fuel from naphtha, a crude oil derivative.

Sales volumes of our line of petrosulfur compounds increased 18% as demand for these specialty chemicals continued strong. Plant expansions completed at our Borger, Texas, Philtex facility increased our capability to supply specialty chemicals markets.

Plastics

Phillips is an important producer and marketer of plastic resins, principally polyethylene, polypropylene, polyphenylene sulfide, butadiene-styrene copolymers and, in Europe, polyvinylchloride. Sales of all plastic resins increased 60% over 1975.

Sales volumes of our high density polyethylene resins increased 54% as a result of the general economic recovery and of greater demand for the resins to make new products and replace materials used in existing products. To meet growing demand for high-density polyethylene, we began work on a 280-million pounds a year addition to our

High-strength shopping bags made of Marlex plastic fortified with our Solprene plastomers offer a major new market for our resins.



plant at Adams Terminal near Houston, Texas. A 60-million pound a year expansion of existing facilities also was authorized. Both additions, which also are capable of producing low-density polyethylene, are scheduled for completion in 1978. Our high-density process was further licensed in Norway and Iraq.

The market for our low-density polyethylene resins, also made by the Phillips process, continued to expand during the year.

Demand for polypropylene plastics was also strong. Work started on a 45-million pounds a year addition to our polypropylene plant at Adams Terminal. Its estimated completion date is 1978.

Sales volume of our Ryton polyphenylene sulfide increased as demand for it accelerated. We began marketing this engineering plastic in colors, a move which will broaden its potential, especially in the small appliance and electronic fields.

Phillips K-Resin butadiene-styrene copolymers continued to gain broad acceptance, with sales volume increasing over 1975. Because of their clarity and impact strength, the polymers have found greatest demand in the medical, toy and packaging fields.

We sold our 45% interest in Belgochim, which makes polystyrene resins in Belgium and markets them principally in Western Europe. Our continued direct participation in this business offered limited potential benefits for Phillips.

Rubber Chemicals

Although demand for carbon black was adversely affected by the 121-day strike against the nation's leading tire manufacturers, sales revenues from our rubber chemicals, mainly carbon black, butadiene and synthetic rubber, increased 16%. Sales volumes were higher from overseas carbon black plants. Unsatisfactory returns led to the sale of our 35% interest in a carbon black plant in Brazil.

Sales of our Solprene plastomers increased. These materials, which have the low-energy processing requirements of plastics and the performance qualities of rubber, are used in footwear and a variety of industrial goods. Our Solprene polymer capacity in the U. S. was more than doubled during the year, and expansions were completed at several overseas part-interest plants.

Fertilizers

Sales volumes were off 10% from 1975 levels. Demand for fertilizers decreased as

low farm commodity prices caused farmers to reduce fertilizer application levels. Ammonia sales also were affected adversely by additional volumes coming on the market from new plants completed by other suppliers.

We closed an outmoded ammonia plant near Houston because our projections showed the increasing cost of the natural gas fuel and feedstock made continued operation of the plant unprofitable. It primarily served industrial markets, not agriculture.

Fabricated Products

We produce and market a variety of coated paper, plastics and fabricated products, many molded from our plastics. Total sales revenues for these products rose 5% over 1975.

Sales of our plastic pipe, conduit and duct increased 57%. The major growth was in industrial markets, principally for handling wastewater and corrosive or erosive slurries such as tailings from mining operations.

We introduced 48-inch diameter pipe made

PRINCIPAL CHEMICAL PLANT EXPANSIONS

PRODUCT	LOCATION	PHILLIPS INTEREST	ADDITIONAL GROSS ANNUAL CAPACITY
COMPLETED DURING 1976			
Butadiene	Tarragona, Spain	45%	110,200,000 pounds
Carbon black	Durgapur, India	30%	13,200,000 pounds
Normal mercaptan	Borger, Texas	100%	9,700,000 pounds
Tertiary mercaptan	Borger, Texas	100%	1,500,000 pounds
Plastic pipe†	Calgary, Alberta	100%	4,000,000 pounds
Cyclohexane	Guayama, Puerto Rico	100%	18,400,000 gallons
Propylene	Sweeny, Texas	100%	90,000,000 pounds
High-density polyethylene	Puertollano, Spain	45%	77,200,000 pounds
Nonwoven fabric	Seneca, South Carolina	100%	13,700,000 square yards
Synthetic rubber	Borger, Texas	100%	25,500 long tons
Synthetic rubber	Salamanca, Mexico	39%	26,600 long tons
Synthetic rubber	Antwerp, Belgium	50%	9,800 long tons
Synthetic rubber	Santander, Spain	45%	29,500 long tons
Butadiene-styrene resin	Borger, Texas	100%	4,000,000 pounds
UNDER CONSTRUCTION OR AUTHORIZED AT YEAR-END			
Butadiene	Tarragona, Spain	45%	110,200,000 pounds
Ethylene	Sweeny, Texas	100%	1,000,000,000 pounds
Ethylene	Antwerp, Belgium	50%	110,200,000 pounds
Polyvinylchloride	Antwerp, Belgium	50%	55,100,000 pounds
Benzene	Antwerp, Belgium	50%	3,600,000 gallons
Mixed xylenes	Antwerp, Belgium	50%	900,000 gallons
Toluene	Antwerp, Belgium	50%	1,900,000 gallons
Propylene	Antwerp, Belgium	50%	48,800,000 pounds
Hydrotreated C ₄	Antwerp, Belgium	50%	29,700,000 pounds
Paraxylene†	Guayama, Puerto Rico	100%	470,000,000 pounds
High-density polyethylene*	Pasadena, Texas	100%	340,000,000 pounds
Polypropylene	Pasadena, Texas	100%	45,000,000 pounds
Cyclohexane	Sweeny, Texas	100%	26,000,000 gallons
Benzene	Guayama, Puerto Rico	100%	12,000,000 gallons
Butene-1	Borger, Texas	100%	30,000,000 pounds
Coated paper	Chicago, Illinois	100%	28,700,000 pounds
Tertiary mercaptan	Borger, Texas	100%	7,000,000 pounds

†New Plant.

*Plant can also produce low-density polyethylene.

of high-density polyethylene, the largest plastic pipe ever made in the United States. The new pipe is expected to find wide industrial and municipal application, particularly for the transportation of potable and waste water.

In the spring, a new plastic pipe plant was completed in Canada's Alberta Province. It supplies the rapidly growing rural gasification market.

We are the leading manufacturer of plastic flower pots and planters, offering more than 250 items. Sales of our line of floralware, called Garden Scene, rose to a record high.

We expanded the line of our plastic molded materials to include poultry handling products such as large quantity egg cartons, chicken coops and containers to store and transport frozen chicken parts.

Sales of Sealright Co., Inc., which makes paperboard and plastic containers, mainly for the dairy and other food industries, reached an all-time high. Developments in the paperboard industry induced Sealright to discon-

tinue operation of its paperboard mill at Fulton, New York, in favor of purchasing the material from others.

H. P. Smith Paper Co., maker of film and paper coatings, had a 40% increase in sales revenues. Contributing to higher revenues was growing demand for both Poly Slik release paper and new Poly Slik film, a non-tear release material which has advantages for applications in fine papers, medical products, diaper pads and other products in expanding markets. Construction began on a major addition at H. P. Smith's Chicago plant to meet increasing demand for Poly Slik.

Fibers

Revenues of 80% owned Phillips Fibers Corporation decreased 79%. This company is a manufacturer and marketer of polyester filament yarns and also a marketer of olefin fibers and nonwoven fabrics produced by facilities wholly owned by Phillips.

Markets for polyester filament yarns were depressed throughout the year by the style trend to "natural look" fabrics, which are mostly spun yarn blends of natural fibers, such as cotton or wool, with synthetic fibers. At Phillips Fibers' Rocky Mount, North Carolina, plant, which makes polyester filament yarn, production was stringently curtailed most of 1976 and halted near year-end because of slack demand.

Phillips Fibers concentrated on expanding markets for its nonwoven fabrics. These markets include backings for vinyl materials, construction fabrics for furniture and underlinings for highway pavement.

A writedown of certain fixed fibers assets reduced chemical earnings by \$12 million.

Raw Material Security

Several factors assure the security of sufficient feedstocks for our chemical plants. First, we own or have access to substantial volumes of hydrocarbons which meet most of the raw material needs of our chemical operations. In addition, several projects are under way to help maintain our feedstock security. For example, in 1976 facilities went into operation at our Borger, Texas, refinery to recover substantial volumes of ethane, which will help meet the raw material needs of an addition to our Sweeny, Texas, ethylene plant. Finally, prices for most chemicals have reached the point where chemical operations can successfully compete with the energy sector for hydrocarbon raw materials.

Production of paraxylene at our chemical complex near Guayama, Puerto Rico, will increase sixfold upon completion of these facilities in 1977. Paraxylene is used as feedstock for making polyester fibers.



research

Activities of Phillips researchers were highlighted by continued evaluation of new oil recovery methods, by developments in fibers technology and by process improvements to maintain our competitive base in plastics.

Energy Resources

On a 90-acre test tract of the North Burbank, Oklahoma, oil field, some six million pounds of petrochemical detergent were injected underground as part of the experimental application of a new oil recovery method. Fields such as North Burbank on the average yield only about a third of their oil even after second stage conventional recovery techniques such as waterflooding have been applied. Funded jointly by the leaseholders and the federal Energy Research and Development Administration, the pilot program continues in 1977 with the injection of a polymer-thickened water, then brine.

Phillips scientists began using a "helium sniffer" in geothermal exploration. The portable sensing device detects helium, which provides clues to the location of probable geothermal prospects.

Products and Processes

A cracking catalyst modifier was developed that produces greater quantities of gasoline and other high-value petroleum products from less expensive, marginal crude oils. The new technology, already in use within Phillips, has favorable licensing prospects.

A catalyst for producing high yields of aromatics from refinery feedstocks was developed and placed in the pilot plant stage of testing. Aromatics are used as petrochemical feedstocks and as premium gasoline blending stocks to improve octane ratings.

Another new development, which has both environmental and energy conservation merits, is a process that converts used lubricating oils into clean fuel oils, lube blending stocks or quality finished lubricating oils.

A method for recovering steam energy produced in our carbon black plant operations underwent tests on a pilot plant scale. The process could save as much as two million barrels of crude oil a year when put into application at the 14 carbon black plants in which the Company has an interest.

Fuels and Lubricants

Our continuing program of motor fuel development produced an improved non-phosphorus additive treatment for Phillips 66 gasoline. The new formulation reduces additive costs by more than a third and improves carburetor cleanliness and emission controls.

A 5W-30 motor oil was developed that provides fluidity and engine protection in extreme winter conditions. It will be on the market in 1977.

Polymers and Plastics

A polyamide fiber was developed that combines the dyeability and stain resistance of nylon with the wrinkle resistance and wash-and-wear properties of polyesters. Licensing prospects for the fiber are promising, with commercialization possible in the early 1980s.

A fiber that shows outstanding fire and chemical resistance was developed and is scheduled for commercial production in 1978. Spun from Ryton, a Phillips engineering plastic, the new fiber has application in such products as durable filters to help control air pollution from smokestacks.

Phillips researchers found a more economical process to produce terephthalic acid, the basic raw material used in manufacturing polyester fibers. Substantial cost savings are achieved by using toluene as feedstock, rather than the higher cost paraxylene used in conventional processes. To continue process development, a joint venture, semi-works plant was built in France.

The Company took another step in maintaining its strong competitive base in plastics research by developing more versatile catalysts to increase the range of Marlex polyethylene products that can be produced.

Patents and Licensing

Our vigorous level of research activity was underscored when for the ninth straight year Phillips ranked first among oil companies in the number of U. S. patents issued with a total of 310. At year-end, Phillips owned 6,462 active U. S. patents. In addition, the Company was issued 189 patents in 31 countries outside the U. S. Licenses for Phillips technology were granted in seven countries.

Scientists Dick Clampitt, left, and Dave Boneau examine samples of sandstone, one saturated with oil, the other after oil has been removed by a Phillips-developed recovery method being tested at Oklahoma's North Burbank Field.



phillips people

At year-end 27,800 people were employed in Phillips operations worldwide, compared with 30,500 a year earlier. The sale of our West Coast refining and marketing facilities had the largest impact on employment figures. Essentially all of the employees engaged in these operations were transferred to the purchaser. A consolidation of our petroleum marketing operations also was initiated during the year. All employees affected by this reduction were given an opportunity to transfer to other positions within the Company. Curtailment of polyester fiber operations also affected total employment. Reduction in employment was partially offset by increased activity in our North Sea operations where the work force was increased significantly during the year.

Employee Relations

We continued to expand job opportunities for women and minorities, especially in professional disciplines utilized by the Company. At year-end, 18% of Phillips employees were women and 11% were members of minority races, both up substantially from the figures six years earlier. Women comprised 9% and minorities 7% of employees in managerial, professional and technical jobs, compared with 6% and 4%, respectively, six years previously. Our recruitment program was broadened to include more colleges and universities with above average numbers of women and minorities.

In keeping with the Company's commitment to utilize and develop employees of host nations, we advanced more such employees into managerial, supervisory and technical positions. By year-end, 52% of the Company's overseas supervisory employees were nationals. Our total overseas work force numbered 3,400, of which 79% were citizens of the host country.

In anticipation of future work force requirements, the Company stepped up programs to identify and develop managerial talent. Additional actions also were taken to help assure that suitably trained employees will be available for new projects anticipated within the next five years.

Relations with union labor groups in the

U. S. remained stable. No significant interruptions in our operations occurred.

Through the Suggestion Plan, employees submitted almost 17,000 ideas for reducing costs and improving operations, a new high. The Company paid \$358,000 for some 4,500 adopted suggestions.

Internal Communications

An employee communications unit was established within the Public Affairs staff to improve and broaden the flow of information within the company. It created two new employee publications: a quarterly magazine, *Phillips Shield*, and a monthly newspaper, *Philnews*. They replaced a monthly magazine. Stockholders may be placed on the mailing list for either of these publications by writing: Harvey W. Thompson, Secretary, Phillips Petroleum Company, Bartlesville, OK 74004.

Our expanding video communication system continued to prove an effective and economical method for training and continuing education. We also made greater use of the system to keep employees up to date on major issues affecting Phillips and the petroleum industry. The video network, which encompasses 55 U. S. and 11 overseas locations, reaches about 80% of all employees.

Health and Safety

Occupational health and safety procedures have long been top priorities of the Company. To improve health services available to employees, the Company extended the scope of its industrial hygiene and toxicology programs, expanded a system for monitoring the work environment and broadened the scope of periodical medical examinations.

The number of disabling injuries in 1976 was 4.8 per million manhours worked. The vehicle accident rate was 3.2 per million miles. Both rates were slightly lower than in 1975 and were below industry averages.

Management Changes

Kenneth Heady was elected to the newly created position of vice president and associate general counsel. He was succeeded as vice president, gas and gas liquids, Natural Resources Group, by C. J. Silas, formerly managing director of the group's Europe-Africa division.

Volunteer work at a Borger, Texas, hospital helped earn 17-year-old Laura Haag a Youth Performance Award, part of a new program co-sponsored by Phillips and local newspapers in certain communities near major Company facilities.

Training and information programs for employees can be quickly produced at this new videotape studio and then shown on TV playback units at Company facilities around the world.

Workers at Ekofisk Center production facilities in the North Sea enter a life support capsule during a regular safety exercise.



corporate citizenship

Extensive communications efforts were undertaken during the year to encourage constructive action on energy issues. Our commitment to responsible corporate citizenship was exemplified by progress in environmental protection and energy conservation.

Public Communications

The year marked the most active executive speaking program ever undertaken by Company officials. Each speaking engagement was combined with numerous radio, television and newspaper interviews, which focused particularly on energy-related issues.

Many employees voluntarily took part in the dialogue on energy issues. In 1976 employees delivered some 1,400 presentations to civic groups and classroom audiences, which included collegiate appearances as part of "executive-on-campus" programs.

Community and Youth Relations

For the past four years, Phillips has been national sponsor of the Amateur Athletic Union's senior swimming program. This support paid big dividends in the Summer Olym-

Swimming techniques were taught to youngsters at several Phillips-sponsored swim clinics like this one in Albuquerque, New Mexico.



pics in Montreal when U. S. swimmers splashed their way to 33 medals in 26 races. Through meetings with business and industry leaders, we encouraged others to assume similar support of youth athletic programs.

The Company further promoted youth competition and physical fitness through sponsorship of several swimming clinics in the U. S. and a number of coaching clinics overseas.

Phillips continued its financial support to educational, health, cultural, youth, community and public interest organizations. Contributions totaled nearly \$2 million in 1976, up 13% over the previous year.

Environmental Protection

Phillips continued to conduct its operations in ways that safeguard the environment and conserve natural resources. We also worked closely with government agencies and industry groups to recommend constructive environmental standards. Environmental expenditures in 1976 were \$66.7 million, of which half were capital expenditures.

A major environmental project, involving an innovative wastewater treatment method, went into operation at our Kansas City, Kansas, refinery. The water treatment facility offers several advantages: low energy requirements, reduced volumes of sludge for disposal and more economical operation.

Energy Conservation

As a result of a concerted, companywide effort, Phillips saved enough energy in its operations in the 1973-76 period to meet the entire energy needs of a typical city of 200,000 people for one year. In 1976 alone energy savings amounted to an equivalent of 2.2 million barrels of crude oil. Our capital investment for energy conservation totaled approximately \$60 million since 1972.

Finding and implementing new and improved ways to conserve energy is becoming more difficult and expensive. A typical example of the high cost of conserving energy was an \$8.5 million project at our Sweeny, Texas, ethylene plants where new exchangers are expected to save almost three billion cubic feet of gas each year, when put into service in early 1977. This is equivalent to 500,000 barrels of oil.

Historic scenes — including this 42-horse hitch for harvesting — are used in the films to show how the U. S. economy grew.

William Shatner, well known for his role in the "Star Trek" TV series, plays a leading part in each of the American Enterprise films.



American Enterprise, a major educational film series on America's economic heritage, was funded by Phillips in 1976 to help increase public understanding of the nation's economic system.

Introduced in April, the five-part documentary is now the most widely used film series in American education. By year-end the films were being viewed by some 500,000 students per month in junior and senior high schools in all 50 states.

The series is provided on a free loan basis to schools, colleges, civic and other organizations, cable television and educational television networks.

Response has been overwhelmingly favorable. Thousands of requests for bookings each month necessitated production of 6,000 prints of the films.

Each film in the series examines America's economic heritage from a different perspective, showing how one of five factors has influenced the nation's growth. The factors — land, people, innovation, organization and government — serve as titles for the films.

Critical acclaim for *American Enterprise* has been widespread. The series or individual films within it have received awards from the Council on International Nontheatrical Events (CINE), the New York TV and Film Festival, the Virgin Islands Film Festival, the Public Relations Society of America and the Arbor Day Foundation.

The series does not promote or defend the American business community or any parochial interest. Instead it reflects basic views of nine leading economic historians, who, with the film production company, were given academic freedom to develop the series content and script.

Phillips underwrote the project in the belief that a broad understanding of the American economic system, especially on the part of young people, is essential to the future of competitive enterprise.

***American Enterprise* films and teaching kits are available from the film distributor, Modern Talking Picture Service, 2323 New Hyde Park Road, New Hyde Park, New York 11040.**

REPORT ON CERTAIN LEGAL PROCEEDINGS

In July 1966, the Department of Justice brought an antitrust suit against Phillips Petroleum Company and Tidewater Oil Company in the United States District Court for the Central District of California to prevent the acquisition by Phillips of substantially all of the manufacturing, marketing and transportation assets of Tidewater located in five western states. In essence the Government charged that the acquisition eliminated potential competition in the sale of gasoline in California. In November 1973, the District Court sustained the Government's position and held that some divestiture would be required. The District Court's judgment was sustained on appeal. Thereafter Phillips and The Oil Shale Corporation, now Tosco Corporation, entered into an agreement under the terms of which Tosco purchased the refinery at Avon, California, petroleum inventories, approximately 725 gasoline stations and related terminal and bulk plants located in California, Washington, Oregon and western Nevada, terminating practically all of Phillips gasoline marketing in the area. The sale, approved by the court as satisfaction of its order of divestiture, was closed April 1, 1976.

The Company's Proxy Statement dated March 29, 1976, described the Gilbar suit and Meyers suit, filed by stockholders, or derivatively on behalf of the Company. In the Gilbar suit the Company, on February 22, 1976, mailed to stockholders of record on February 4 a notice that parties to this suit had agreed to a settlement of the suit subject to approval by the court. Following hearings on April 8

and 22, 1976, the court approved the settlement without material change. The six new outside directors nominated by the Board of Directors, pursuant to the settlement, for election as directors at the 1976 Annual Meeting were among the seventeen directors elected at the Annual Meeting on April 27, 1976. Other steps taken pursuant to the settlement include adoption of Bylaw amendments and establishment of a new nominating committee composed of outside directors. In regard to the Meyers suit, the court entered a judgment sustaining the defendants' motion to dismiss on May 3, 1976. That judgment was not appealed.

As previously reported to the stockholders, a federal grand jury in Tulsa, Oklahoma, on September 2, 1976, returned an indictment against the Company, Mr. W. F. Martin, Chairman of the Board and Chief Executive Officer, and two former Chief Executive Officers of the Company, who are now retired. The indictment charges the Company and the individual defendants with a conspiracy to defraud the United States Government by interfering with the lawful functions of the Internal Revenue Service in the ascertainment and collection of taxes of the Company. In addition, the Company was charged with wrongfully filing tax returns for the years 1969, 1970 and 1971 which allegedly under-reported income. Mr. Martin was charged with aiding in the preparation and presentation of those returns. All individuals and the Company have pleaded not guilty. The case is being vigorously defended.

PHILLIPS PETROLEUM COMPANY
CONSOLIDATED BALANCE SHEETS AT DECEMBER 31

ASSETS	1976	1975
Current Assets:		
Cash, including time deposits — (1976 — \$532,537,000; 1975 — \$356,432,000) . . .	\$ 648,592,000	\$ 477,367,000
Short-term investments	53,649,000	45,255,000
Notes and accounts receivable — (less allowances: 1976 — \$9,548,000; 1975 — \$10,089,000)	710,604,000	629,036,000
Inventories:		
Crude oil, petroleum products, chemicals and merchandise	328,114,000	340,070,000
Materials and supplies	117,598,000	129,530,000
Total Current Assets	1,858,557,000	1,621,258,000
Investments and Long-Term Receivables — (less allowances: 1976 — \$13,550,000; 1975 — \$13,869,000) — Note 2	432,235,000	404,401,000
Properties, Plants and Equipment , at cost, less accumulated depreciation, depletion and amortization — Note 3	2,675,299,000	2,439,127,000
Prepaid and Deferred Charges	102,372,000	80,143,000
	<u>\$5,068,463,000</u>	<u>\$4,544,929,000</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Notes and accounts payable	\$ 559,413,000	\$ 526,317,000
Long-term debt due within one year — Note 4	45,225,000	47,981,000
Accrued taxes	428,770,000	261,891,000
Other accruals	48,538,000	47,359,000
Total Current Liabilities	1,081,946,000	883,548,000
Long-Term Debt — Note 4	839,017,000	892,672,000
Deferred Credits:		
Income taxes — Note 5	292,959,000	201,606,000
Other	63,384,000	64,369,000
Total Deferred Credits	356,343,000	265,975,000
Accrued Contingent Liabilities	60,305,000	66,387,000
Minority Interest in Consolidated Subsidiaries	10,511,000	12,048,000
Stockholders' Equity — Note 6:		
Common stock, \$2.50 par value:		
Shares authorized — 100,000,000		
Shares issued — (1976 — 76,567,277; 1975 — 76,261,836)	191,418,000	190,655,000
Capital in excess of par value of common stock	472,270,000	455,136,000
Earnings employed in the business	2,056,982,000	1,779,002,000
	2,720,670,000	2,424,793,000
Less treasury stock, at cost — (1976 — 12,096 shares; 1975 — 18,177 shares)	329,000	494,000
Total Stockholders' Equity	2,720,341,000	2,424,299,000
	<u>\$5,068,463,000</u>	<u>\$4,544,929,000</u>

PHILLIPS PETROLEUM COMPANY

CONSOLIDATED STATEMENTS OF INCOME AND EARNINGS EMPLOYED IN THE BUSINESS

	1976	1975
Revenues:		
Sales and other operating revenues	\$5,697,516,000	\$5,133,557,000
Equity in earnings of nonsubsidiary companies	44,036,000	28,791,000
Other revenues	95,389,000	50,540,000
	<u>5,836,941,000</u>	<u>5,212,888,000</u>
Costs and Expenses:		
Costs and operating expenses	4,017,912,000	3,668,819,000
Selling, general and administrative expenses	322,268,000	322,462,000
Depreciation, depletion, amortization and retirements	303,990,000	326,032,000
Taxes other than income taxes* — Note 5	93,007,000	93,798,000
Interest and expense on indebtedness	68,291,000	49,761,000
Provision for income taxes — Note 5	619,817,000	409,448,000
	<u>5,425,285,000</u>	<u>4,870,320,000</u>
Net Income	<u>411,656,000</u>	<u>342,568,000</u>
Earnings Employed in the Business at Beginning of Year:		
As previously reported	1,779,002,000	1,636,057,000
Adjustment — Note 5	—	(77,789,000)
As restated	<u>1,779,002,000</u>	<u>1,558,268,000</u>
	2,190,658,000	1,900,836,000
Dividends Paid (1976 — \$1.75 a share; 1975 — \$1.60 a share)	<u>133,676,000</u>	<u>121,834,000</u>
Earnings Employed in the Business at End of Year	<u>\$2,056,982,000</u>	<u>\$1,779,002,000</u>
Net Income Per Share of Common Stock	\$ 5.39	\$ 4.50

*In addition, taxes of \$208,000,000 in 1976 and \$267,000,000 in 1975 were collected on the sale of petroleum products and paid to taxing agencies.

PHILLIPS PETROLEUM COMPANY

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

Funds Provided from Operations Consisted of —

Net income	\$ 411,656,000	\$ 342,568,000
Non-cash items included in earnings, as follows —		
Depreciation, depletion, amortization and retirements	303,990,000	326,032,000
Other (primarily deferred taxes)	99,029,000	55,335,000
	<u>814,675,000</u>	<u>723,935,000</u>

While Funds Were Expended for —

Properties, plants and equipment	727,774,000	693,879,000
Investments	36,643,000	35,361,000
Dividends to Company stockholders	133,676,000	121,834,000
Reduction of long-term borrowings	113,913,000	76,141,000
Other	44,558,000	45,418,000
Additions to working capital	38,901,000	160,996,000
	<u>1,095,465,000</u>	<u>1,133,629,000</u>

Which Left a Deficiency of	\$ 280,790,000	\$ 409,694,000
---	-----------------------	-----------------------

This Deficiency Was Financed by —

Long-term borrowings	\$ 55,067,000	\$ 310,576,000
Property sales and retirements	183,686,000	86,267,000
Sales of investments	23,975,000	3,723,000
Proceeds from sale of Company stock	18,062,000	7,658,000
Other	—	1,470,000
	<u>\$ 280,790,000</u>	<u>\$ 409,694,000</u>

Changes in Components of Working Capital:

Cash and short-term investments	\$ 179,619,000	\$ 129,138,000
Notes and accounts receivable	81,568,000	17,695,000
Inventories	(23,888,000)	8,726,000
Total Current Assets	237,299,000	155,559,000
Notes and accounts payable	33,096,000	(16,580,000)
Long-term debt due within one year	(2,756,000)	8,944,000
Accrued taxes and other accruals	168,058,000	2,199,000
Total Current Liabilities	198,398,000	(5,437,000)
Additions to working capital	<u>\$ 38,901,000</u>	<u>\$ 160,996,000</u>

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors and Stockholders
Phillips Petroleum Company

We have examined the accompanying consolidated balance sheets of Phillips Petroleum Company at December 31, 1976 and 1975 and the related consolidated statements of income and earnings employed in the business and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the consolidated financial position of Phillips Petroleum Company at December 31, 1976 and 1975 and the consolidated results of operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

Tulsa, Oklahoma
February 25, 1977

ARTHUR YOUNG & COMPANY

NOTE 1 — ACCOUNTING POLICIES

Consolidation Principles and Investments — The consolidated statements include the accounts of companies owned more than 50%. Investments in companies owned 20% to 50%, inclusively, and in corporate joint ventures are accounted for using the equity method. Investments in other companies are carried at cost except that equity securities for which quoted prices are available are carried at the lower of aggregate cost or market, computed separately for current and noncurrent securities.

Inventories — Crude oil, petroleum products and chemicals are priced at cost, which is lower than market in the aggregate, mainly on the last-in, first-out basis. Materials and supplies are priced at average cost or replacement cost, with allowance for condition of used material.

Depreciation and Depletion — Depreciation of properties, plants and equipment is determined by the group straight-line method, individual unit straight-line method and the unit of production method, applying the method considered most appropriate for each type of property. Leasehold costs of producing properties and the intangible development costs of productive wells are amortized on the unit of production method based on estimated recoverable oil and gas reserves.

Exploratory Costs — Undeveloped oil and gas leaseholds are capitalized and that portion of the costs applicable to properties which it is estimated will be surrendered is amortized over the estimated holding period. Dry holes and undeveloped lease rentals are expensed. Geological and geophysical costs resulting in the acquisition or retention of leases are capitalized with the remainder being expensed.

Property Dispositions — When complete units of depreciable property are retired or are sold for continued use, accumulated depreciation is reduced by the applicable amounts and any profit or loss is credited or charged to income. When less than complete units of depreciable property are retired or disposed of, the difference between asset cost and salvage value is charged or credited to accumulated depreciation.

Maintenance and Repairs — Maintenance and repairs are charged against income. Major renewals and replacements are charged to property accounts, and the assets replaced are retired.

Income Taxes — Deferred taxes are provided for all significant timing differences in the recognition of revenue and expenses for tax and financial purposes.

The application of this method to intangible development and certain other costs was adopted January 1, 1975, on a retroactive basis, as explained in Note 5.

The allowable investment tax credit is applied as a reduction of income taxes.

NOTE 2 — INVESTMENTS

Investments at December 31, 1976, include 10,326,321 shares of common stock of Pacific Petroleum Ltd. ("Pacific"), representing 48.38% of the total shares outstanding. These securities had a carrying value of \$201,878,000 and a quoted market value of \$293,009,000 at December 31, 1976, which does not purport to be realizable value. At the same date, net assets of Pacific in Canadian dollars amounted to \$403,074,000 which consists of current assets \$138,932,000, net property, plant and equipment \$503,006,000, investments \$106,683,000, current liabilities \$58,103,000, long-term debt \$170,899,000 and provisions for future income tax \$116,545,000. Earnings of Pacific for 1976 in Canadian dollars were \$66,431,000.

NOTE 3 — PROPERTIES, PLANTS AND EQUIPMENT

The Company's investment in properties, plants and equipment is summarized as follows:

	December 31	
	1976	1975
Natural Resources	\$2,953,921,000	\$2,588,904,000
Petroleum Products	1,119,355,000	1,309,191,000
Chemicals	759,025,000	701,393,000
Other	135,247,000	112,861,000
	<u>4,967,548,000</u>	<u>4,712,349,000</u>
Less accumulated depreciation, depletion and amortization ...	<u>2,292,249,000</u>	<u>2,273,222,000</u>
	<u>\$2,675,299,000</u>	<u>\$2,439,127,000</u>

NOTE 4 — LONG-TERM DEBT

Long-term debt due after one year at December 31, 1976, consists of the following:

8⅞ % Debentures Due 2000	\$250,000,000
7⅞ % Debentures Due 2001	199,268,000
6% Guaranteed Sinking Fund Debentures Due 1981	8,750,000
5½ % Guaranteed Swiss Bonds due 1983	24,540,000
Notes payable to banks, insurance companies and others:	
At 7%-8¼ %, due 1978-1990	62,854,000
At 5⅞ %-6½ %, due 1978-1991	239,552,000
At 4%-5%, due 1978-1989	10,466,000
Purchase obligations	22,752,000
Other	20,835,000
	<u>\$839,017,000</u>

Maturities of long-term debt for the next five years are: 1977 — \$45,225,000 (included in current liabilities); 1978 — \$53,501,000; 1979 — \$54,879,000; 1980 — \$52,278,000; 1981 — \$39,253,000.

Arrangements existed at year-end for a subsidiary to borrow the equivalent of \$25,000,000 to finance its proportionate share of expenditures for the Ekofisk project field development program. Repayment of such loans would commence in 1977 and continue through 1983.

NOTE 5 — TAXES

	1976	1975
Operating taxes		
Property	\$ 31,503,000	\$ 32,624,000
Gross production	29,304,000	28,687,000
Social security	21,663,000	20,848,000
Other	10,537,000	11,639,000
	<u>93,007,000</u>	<u>93,798,000</u>
Income taxes		
Federal		
Current	164,199,000	110,527,000
Deferred	27,705,000	18,314,000
Foreign		
Current	347,356,000	235,762,000
Deferred	63,974,000	32,632,000
State	16,583,000	12,213,000
	<u>619,817,000</u>	<u>409,448,000</u>
Total taxes charged to income ...	712,824,000	503,246,000
Excise taxes collected on the sale of petroleum products and paid to taxing agencies	208,000,000	267,000,000
	<u>\$920,824,000</u>	<u>\$770,246,000</u>

The amount of investment tax credit applied as a reduction of the provision for federal income taxes was \$41,804,000 in 1976 and \$20,562,000 in 1975. See Note 10.

Deferred taxes on timing differences which were recognized in 1976 and 1975 were:

	1976	1975
Excess of tax over book depreciation	\$25,876,000	\$23,918,000
Excess of intangible drilling and certain other costs over book provisions	40,362,000	19,637,000
Unrealized exchange net gain (loss) on debt	19,516,000	(1,245,000)
Other	5,925,000	8,636,000
	<u>\$91,679,000</u>	<u>\$50,946,000</u>

The Company's effective income tax rate differs from the federal statutory income tax rate due to the following reasons:

	Percentage of Pretax Income	
	1976	1975
Federal statutory income tax rate	48.0%	48.0%
Excess of foreign tax over the allowed foreign tax credit	16.1	14.5
U. S. tax deduction for excess percentage depletion	(.8)	(1.5)
Equity in undistributed earnings of certain companies for which tax has not been accrued because of plans to reinvest earnings and tax savings on dividends received	(1.9)	(2.7)
Investment tax credit	(4.0)	(2.7)
Increase in foreign taxes due to currency translation fluctuations	3.0	—
Other	(.3)	(1.2)
Effective tax rate	<u>60.1%</u>	<u>54.4%</u>

At December 31, 1976, income taxes have not been accrued on \$89,645,000 of the Company's equity in undistributed earnings of certain subsidiaries and corporate joint ventures because of reinvestment plans for such funds.

The elimination by the Tax Reduction Act of 1975 of the percentage depletion allowance for oil and certain gas production of major oil companies caused the Company to commence inter-period tax allocation on intangible development and certain other costs. Accordingly, a charge in the amount of \$77,789,000 was made against earnings employed in the business for deferred taxes applicable to such costs prior to January 1, 1975. This change had no material effect on earnings for 1975, nor would it have materially affected earnings for prior periods had such policy been in effect.

NOTE 6 — STOCKHOLDERS' EQUITY

During 1976 common stock issued increased 305,441 shares and capital in excess of par value of common stock increased \$17,134,000. This resulted from the sale of 273,600 shares to the Thrift Plan Trustee, the contribution of 31,841 shares to the Trust Fund established under the Employee Stock Ownership Plan and the distribution of 6,081 treasury shares under the Incentive Compensation Plan.

NOTE 7 — LEASE RENTALS, COMMITMENTS AND CONTINGENT LIABILITIES

Rentals on leases covering bulk and service stations, tank cars, office space and other facilities entering into the determination of net income follow:

	1976	1975
Financing leases	\$37,873,000	\$ 42,542,000
Other leases	58,419,000	57,985,000
Total rentals	96,292,000	100,527,000
Less subleasing income	27,299,000	26,339,000
Net rentals	<u>\$68,993,000</u>	<u>\$ 74,188,000</u>

Contingent rentals included above amounted to \$989,000 in 1976 and \$4,233,000 in 1975, and are generally based on the volume of motor fuel sold through bulk and service stations. Most station leases have renewal options for varying periods at monthly rentals at least equal to the rentals paid during the primary lease term. Some of these leases include purchase options exercisable after a specified number of years. Basic rental commitments (net of subleasing income) under noncancelable leases at December 31, 1976, the related subleasing income and present values of noncapitalized financing lease commitments at December 31, 1976 and 1975, follow:

	Basic Rental Commitments (Net of Subleasing Income)			
	Marketing Properties	Other Properties	Total	Subleasing Income
	(in thousands)			
All leases				
1977	\$ 23,176	\$ 8,989	\$ 32,165	\$ 8,244
1978	22,316	8,818	31,134	7,813
1979	21,632	7,292	28,924	7,202
1980	17,886	7,289	25,175	6,112
1981	16,714	6,721	23,435	5,871
1982-1986	71,339	25,906	97,245	16,141
1987-1991	41,729	10,457	52,186	2,064
1992-1996	12,019	1,323	13,342	—
Remaining years	1,057	776	1,833	—
Total	<u>\$227,868</u>	<u>\$77,571</u>	<u>\$305,439</u>	<u>\$53,447</u>
Financing leases				
Total commitments ..	\$211,681	\$67,964	\$279,645	\$51,127
Present values:				
December 31, 1976	\$141,184	\$46,626	\$187,810	\$41,305
December 31, 1975	\$202,088	\$50,005	\$252,093	\$41,621

The weighted average interest rate used in determining the present values was 6.3% for both 1976 and 1975, with rates ranging from 2.8% to 10.0%.

The effect upon net income of capitalizing all non-capitalized financing leases is not presented since it is less than 3% of the average net income for the most recent three years.

At December 31, 1976, the Company was contingently liable for \$227,983,000 of obligations of other companies. In addition, the Company has contingent liabilities with respect to claims and commitments arising from agreements with pipeline companies in which it holds stock interests whereby it may be required to provide such companies with additional funds through advances against future transportation charges.

A number of legal proceedings in which the Company or a subsidiary appears as plaintiff or defendant are pending in various courts or governmental agencies. For information relating to the status of certain legal proceedings refer to "Report on Certain Legal Proceedings," page 30.

While it is impossible to estimate the ultimate liability in respect to contingent liabilities, the Company is of the opinion that any liability for which provision has not been made will not have a materially adverse effect on its financial position.

NOTE 8 — RETIREMENT INCOME PLANS

The parent company and its subsidiaries have retirement plans covering substantially all of their employees. These plans are being funded based on pension costs accrued as determined by actuarial studies. Charges to income for such plans were \$38,214,000 for 1976 and \$39,738,000 for 1975. At December 31, 1976, retirement plan assets of the parent company's plan (which accounts for approximately 80% of total participants) substantially exceeded the present value of vested benefits under such plan.

Effective January 1, 1976, based on the recommendations of its actuary, the Company adopted changes in the actuarial method and assumptions used in its retirement plan which will facilitate compliance with the provisions of the Employee Retirement Income Security Act of 1974 and more accurately reflect actual experience and future expectations. Changes included the adoption of the entry age normal cost method (in lieu of the frozen initial liability method)

and changes in assumptions relating to investment yield, salary scale progression, mortality, turnover and early retirement rates. These changes will not have any material effect on Company contributions to the plan. The adoption of the entry age normal cost method did not increase the Company's liabilities for pensions but did result in an increase in unfunded actuarial liabilities along with a corresponding reduction in future normal costs. The unfunded actuarial liability amounted to approximately \$214,000,000 which is being amortized at the rate of 10% per year.

NOTE 9 — INCENTIVE COMPENSATION PLAN

Under the Company's Incentive Compensation Plan, adopted in 1965, a provision of \$5,858,000, which was substantially less than the maximum permitted under the plan, was made against 1976 earnings in anticipation of awards to key employees in 1977. Earnings in 1975 included a provision of \$4,585,000.

NOTE 10 — EMPLOYEE STOCK OWNERSHIP PLAN

In 1976 the Company adopted an Employee Stock Ownership Plan, effective January 1, 1975, for eligible employees of Phillips Petroleum Company and certain subsidiaries. The plan is funded solely by an additional one percent investment tax credit available for such purpose under the provisions of the Tax Reduction Act of 1975. The Act permits an additional one percent tax credit if an amount equal to the credit is used to provide company stock for employees; therefore the plan had no effect on income. Under present provisions in the tax law the additional tax credit may be continued through 1980.

NOTE 11 — ACCOUNTING CHANGE FOR TRANSLATION OF FOREIGN CURRENCY ITEMS

On January 1, 1976, the Company was required to comply with Statement No. 8 of the Financial Accounting Standards Board which provides that cash, temporary investments, receivables and payables shall be translated at current rates of exchange with other assets and liabilities translated at historical exchange rates. Prior to this date current assets and current liabilities were translated at current rates while all other assets and liabilities were translated at historical rates. Net unrealized translation losses were charged against income; net unrealized translation gains were credited to a reserve for exchange losses. Since the change did not have a material

effect on 1975, earnings for that year have not been restated. Translation losses reduced earnings \$37,338,000 in 1976 and were not material in 1975.

NOTE 12 — RESEARCH AND DEVELOPMENT EXPENSES

Charges to income for research and development were \$40,215,000 in 1976 and \$33,667,000 in 1975.

NOTE 13 — FOREIGN OPERATIONS

The balance sheets include net assets applicable to operations in foreign countries in the approximate amounts of \$1,344,795,000 for 1976 and \$1,252,761,000 for 1975. Earnings from such operations were \$118,691,000 for 1976 and \$105,211,000 for 1975.

NOTE 14 — QUARTERLY FINANCIAL DATA (UNAUDITED)

	Sales and other operating revenues	Income before income taxes	Net income	Net income per share of common stock
1976: (A)	(in millions except per share figures)			
First quarter	\$1,380	\$ 244	\$ 98	\$1.28
Second quarter (B)	1,387	215 (C)	90	1.17
Third quarter	1,396	270	98	1.29
Fourth quarter	1,535	302 (D)	126	1.65
Total	<u>\$5,698</u>	<u>\$1,031</u>	<u>\$412</u>	<u>\$5.39</u>

(A) See Note 11 for an explanation of the accounting change required by Statement No. 8 issued by the Financial Accounting Standards Board on translation of foreign currency items. Additional information on translation gains and losses is disclosed in the interim reports to stockholders.

(B) See "Report on Certain Legal Proceedings," page 30, concerning sale of assets in four western states.

(C) Includes a charge of \$8,039,000 due to cancellation of a tanker construction contract.

(D) Includes a charge of \$21,000,000 for a writedown of the carrying value of certain fixed assets in the Company's fibers operations, which was substantially offset by profits realized from inventory liquidations.

NOTE 15 — ESTIMATED REPLACEMENT COSTS (UNAUDITED)

The Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission (a copy of which is available upon request) contains required information with respect to the estimated replacement cost of inventories and productive capacity at December 31, 1976, and the related estimated effect of such costs on costs and operating expenses and depreciation, depletion and amortization.

DISCUSSION OF EARNINGS FLUCTUATIONS

Year Ended December 31, 1976

The Company's earnings for 1976 increased \$69,088,000 or 20% over 1975. Of total 1976 earnings, domestic operations accounted for 71% or \$292,965,000, an increase of \$55,608,000 or 23%. Foreign earnings accounted for \$118,691,000 of total earnings, an increase of \$13,480,000 or 13%. The improved earnings were primarily due to higher sales prices for motor fuel, natural gas and chemicals, and improved equity in earnings of nonsubsidiary companies. Foreign currency translation losses reduced earnings \$37,338,000 in 1976 and were not material in 1975.

Total revenues increased \$624,053,000 or 12% including \$563,959,000 for sales and other operating revenues which was the result of higher selling prices partly offset by lower sales volumes for natural gas, ethylene and fertilizer and lower fertilizer prices. The Company's equity in earnings of nonsubsidiary companies increased \$15,245,000 because of improved earnings of foreign affiliates. A \$44,849,000 increase in other revenues primarily consists of increased interest income and profit from sale of certain properties, plants and equipment.

Total costs and expenses increased \$554,965,000 or 11%. Increased costs and operating expenses of \$349,093,000 are accounted for by higher volumes and prices for crude oil purchases and increased production and operating expenses. The reduction of \$22,042,000 in depreciation, depletion, amortization and retirements is attributed to a reduction of \$50,042,000 in dry hole charges partially offset by an increase in retirements. Interest and expense on indebtedness increased \$18,530,000 due to slightly higher interest rates on higher average indebtedness. The provision for income taxes was up \$210,369,000, with increases of \$142,936,000 for foreign taxes and \$67,433,000 for U. S. taxes.

Year Ended December 31, 1975

The Company's earnings for 1975 declined \$87,209,000 or 20% from 1974 earnings before cumulative effect of an accounting change. Of total 1975 earnings, domestic operations accounted for \$237,357,000 or 69%, down 7% from last year, and foreign operations accounted for \$105,211,000, down 40%. The lower earnings were mainly due to substantially higher income taxes and lower earnings from worldwide chemical operations. Partially offsetting these factors was a 17% increase in worldwide crude oil production, due entirely to rising North Sea output.

Total revenues increased \$107,168,000 or 2%. This was due to an improvement of \$152,853,000 in sales and other operating revenues, primarily the result of higher product prices partially offset by lower product sales volumes. Equity in earnings of nonsubsidiary companies was down \$30,951,000 due to decreased earnings of foreign affiliates. Other revenues decreased \$14,734,000 mainly due to lower interest income.

Total costs and expenses increased \$194,377,000 or 4%. Of the total increase, costs and operating expenses accounted for \$71,620,000 and selling, general and administrative expenses \$10,910,000, the major portion of each being attributable to higher payroll costs. Charges for depreciation, depletion, amortization and retirements were \$52,488,000 higher, of which \$47,745,000 was dry hole costs. Taxes other than income taxes were up \$8,989,000, principally taxes levied on the production of crude oil and natural gas.

Interest and expense on indebtedness declined \$3,070,000 because of lower average outstanding debt during the year. The provision for income taxes increased \$53,440,000 with an increase of \$62,547,000 in foreign taxes and a decrease of \$9,107,000 in U. S. taxes. The higher foreign taxes are the result of increased earnings and higher foreign tax rates. The decrease in U. S. taxes is due to lower earnings and larger investment tax credit, which were substantially offset by higher taxes resulting from the Tax Reduction Act of 1975.

TEN-YEAR FINANCIAL REVIEW (dollars in millions, except per share amounts)

	1976	1975	1974	1973	1972	1971	1970	1969	1968	1967
CONSOLIDATED BALANCE SHEETS AT DECEMBER 31										
Assets										
Current assets:										
Cash and short-term investments	\$ 702.3	\$ 522.7	\$ 393.5	\$ 441.1	\$ 338.5	\$ 225.1	\$ 137.1	\$ 187.4	\$ 135.4	\$ 147.1
Notes and accounts receivable — net	710.6	629.0	611.3	502.7	383.8	382.8	410.6	392.3	388.3	351.5
Inventories:										
Crude oil, petroleum products and chemicals ..	315.3	326.5	355.7	225.9	231.2	240.5	212.6	217.6	220.3	203.9
Merchandise	12.8	13.6	13.3	13.1	14.6	18.7	21.9	24.1	21.5	24.3
Materials and supplies	117.6	129.5	91.9	49.9	35.1	36.1	35.7	31.2	29.6	30.8
Total current assets	1,858.6	1,621.3	1,465.7	1,232.7	1,003.2	903.2	817.9	852.6	795.1	757.6
Investments and long-term receivables — net	432.2	404.4	360.5	379.8	377.8	391.8	361.6	383.5	332.1	317.8
Properties, plants and equipment — net	2,675.3	2,439.1	2,154.1	1,952.3	1,857.8	1,838.0	1,850.5	1,846.4	1,749.9	1,709.7
Prepaid and deferred charges	102.4	80.1	47.8	42.0	30.8	33.7	41.5	39.9	36.4	29.6
Total assets	5,068.5	4,544.9	4,028.1	3,606.8	3,269.6	3,166.7	3,071.5	3,122.4	2,913.5	2,814.7
Liabilities and stockholders' equity										
Current liabilities:										
Notes and accounts payable	\$ 559.4	\$ 526.3	\$ 542.9	\$ 400.7	\$ 276.5	\$ 254.5	\$ 280.3	\$ 251.1	\$ 266.8	\$ 265.8
Long-term debt due within one year	45.2	48.0	39.0	60.6	52.7	52.2	106.1	75.9	47.1	49.9
Accrued taxes	428.8	261.9	264.9	117.7	113.1	102.5	114.5	119.7	87.5	86.3
Other accruals	48.5	47.3	42.2	41.8	40.6	36.1	28.9	27.9	27.5	27.7
Total current liabilities	1,081.9	883.5	889.0	620.8	482.9	445.3	529.8	474.6	428.9	429.7
Long-term debt	839.0	892.7	658.2	799.1	791.8	800.2	687.9	787.4	655.2	690.0
Deferred income taxes	293.0	201.6	72.9	64.2	61.5	63.0	57.3	59.7	68.4	70.9
Other deferred credits	63.4	64.4	66.3	63.3	41.9	41.8	36.3	51.7	63.5	61.2
Accrued contingent liabilities	60.3	66.4	60.0	90.4	67.0	60.7	57.4	50.5	45.2	27.6
Minority interest in consolidated subsidiaries	10.5	12.0	8.0	5.4	4.7	6.5	9.9	21.1	15.6	15.9
Stockholders' equity:										
Common stock, \$2.50 par value	191.4	190.7	190.7	190.7	190.6	190.5	190.3	190.3	189.7	179.6
Capital in excess of par value of common stock ..	472.3	455.1	451.3	444.0	440.8	437.2	433.3	433.3	427.4	329.2
Earnings employed in the business	2,057.0	1,779.0	1,636.0	1,343.9	1,211.7	1,160.9	1,125.4	1,110.4	1,076.5	1,067.9
	2,720.7	2,424.8	2,278.0	1,978.6	1,843.1	1,788.6	1,749.0	1,734.0	1,693.6	1,576.7
Less treasury stock	.3	.5	4.3	15.0	23.3	39.4	56.1	56.6	56.9	57.3
Total stockholders' equity	2,720.4	2,424.3	2,273.7	1,963.6	1,819.8	1,749.2	1,692.9	1,677.4	1,636.7	1,519.4
Total liabilities and stockholders' equity	5,068.5	4,544.9	4,028.1	3,606.8	3,269.6	3,166.7	3,071.5	3,122.4	2,913.5	2,814.7
Stockholders' equity per share*	\$ 35.53	\$ 31.80	\$ 29.88	\$ 25.94	\$ 24.14	\$ 23.40	\$ 22.86	\$ 22.66	\$ 22.18	\$ 21.79

PROPERTIES, PLANTS AND EQUIPMENT

Gross investment

Natural resources	\$2,953.9	\$2,588.9	\$2,440.2	\$2,078.6	\$1,909.9	\$1,803.3	\$1,756.4	\$1,736.5	\$1,594.7	\$1,502.8
Petroleum products	1,119.4	1,309.2	1,198.6	1,147.1	1,142.0	1,144.1	1,152.2	1,132.2	1,117.9	1,132.4
Chemicals	759.0	701.4	666.3	798.4	763.8	733.5	684.1	630.0	583.8	538.5
Other	135.2	112.8	105.6	100.2	98.4	98.6	100.1	97.4	97.1	94.3
	4,967.5	4,712.3	4,410.7	4,124.3	3,914.1	3,779.5	3,692.8	3,596.1	3,393.5	3,268.0

Net investment

Natural resources	\$1,651.1	\$1,376.9	\$1,190.3	\$ 921.5	\$ 818.2	\$ 758.9	\$ 745.6	\$ 748.3	\$ 654.4	\$ 601.8
Petroleum products	578.3	660.2	581.3	556.1	558.6	592.3	634.7	654.8	676.7	720.2
Chemicals	372.1	350.2	334.1	428.6	433.1	436.1	416.4	389.2	362.9	332.8
Other	73.8	51.8	48.4	46.1	47.9	50.7	53.8	54.1	55.9	54.9
	2,675.3	2,439.1	2,154.1	1,952.3	1,857.8	1,838.0	1,850.5	1,846.4	1,749.9	1,709.7

*Adjusted for two-for-one stock split in 1969.

Note — In 1973 the valuation method for inventories of certain petroleum products and chemicals, previously calculated on the last-in, first-out monthly basis, was changed to the last-in, first-out annual basis.

	1976	1975	1974	1973	1972	1971	1970	1969	1968	1967
CONSOLIDATED STATEMENTS OF INCOME										
Sales and other operating revenues:										
Natural resources	\$ 816.9	\$ 752.9	\$ 622.7	\$ 428.7	\$ 386.8	\$ 368.2	\$ 365.3	\$ 360.9	\$ 346.9	\$ 318.5
Petroleum products	3,634.6	3,307.4	3,015.7	1,661.1	1,478.9	1,443.3	1,412.6	1,350.6	1,311.1	1,276.2
Chemicals	1,229.6	1,057.4	1,319.6	881.7	630.1	537.3	481.9	476.1	436.0	374.9
Other	16.4	15.9	22.7	18.5	16.9	14.4	13.3	14.4	12.9	12.0
Total sales and other operating revenues	5,697.5	5,133.6	4,980.7	2,990.0	2,512.7	2,363.2	2,273.1	2,202.0	2,106.9	1,981.6
Other revenues (including equity in earnings of nonsubsidiary companies)	139.4	79.3	125.0	83.5	54.8	49.1	38.2	30.0	20.3	31.7
Total revenues	5,836.9	5,212.9	5,105.7	3,073.5	2,567.5	2,412.3	2,311.3	2,232.0	2,127.2	2,013.3
Costs and operating expenses	4,017.9	3,668.8	3,597.2	2,088.0	1,711.0	1,615.3	1,541.2	1,486.7	1,410.4	1,276.1
Selling, general and administrative expenses	322.2	322.5	311.6	290.5	298.1	288.3	288.0	270.5	267.9	245.9
Depreciation, depletion, amortization and retirements	304.0	326.0	273.6	238.9	223.1	201.3	198.4	195.1	187.0	170.1
Taxes other than income taxes	93.0	93.8	84.8	69.0	63.9	59.7	57.6	53.8	51.8	49.3
Interest and expense on indebtedness	68.3	49.8	52.8	62.3	58.8	62.6	54.2	49.6	40.5	43.0
Provision for income taxes	619.8	409.4	356.0	94.4	64.2	52.8	52.0	46.2	42.7	64.4
Total costs and expenses	5,425.2	4,870.3	4,676.0	2,843.1	2,419.1	2,280.0	2,191.4	2,101.9	2,000.3	1,848.8
Income before extraordinary items and accounting change	411.7	342.6	429.7	230.4	148.4	132.3	119.9	130.1	126.9	164.5
Extraordinary items and accounting change	—	—	(27.6)	—	—	—	(8.7)	—	6.9	—
Net income	411.7	342.6	402.1	230.4	148.4	132.3	111.2	130.1	133.8	164.5
Per average share outstanding:*										
Income before extraordinary items and accounting change	\$ 5.39	\$ 4.50	\$ 5.66	\$ 3.05	\$ 1.98	\$ 1.78	\$ 1.62	\$ 1.76	\$ 1.74	\$ 2.38
Net income	\$ 5.39	\$ 4.50	\$ 5.30	\$ 3.05	\$ 1.98	\$ 1.78	\$ 1.50	\$ 1.76	\$ 1.83	\$ 2.38
Dividends per share*	\$ 1.75	\$ 1.60	\$ 1.45	\$ 1.30	\$ 1.30	\$ 1.30	\$ 1.30	\$ 1.30	\$ 1.27½	\$ 1.17½
Income before extraordinary items and accounting change:										
As percent of average total assets	8.7	8.3	11.2	6.9	4.6	4.3	3.9	4.4	4.5	5.9
As percent of total revenues	7.1	6.6	8.4	7.5	5.8	5.5	5.2	5.8	6.0	8.2
Percent of total revenues from outside U. S.	19.6	18.2	23.7	21.5	16.1	17.4	13.4	12.2	11.1	9.3

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

Source

Funds from operations	\$ 814.7	\$ 723.9	\$ 758.4	\$ 469.3	\$ 367.4	\$ 332.7	\$ 316.6	\$ 317.4	\$ 317.5	\$ 339.5
Long-term debt	55.1	310.6	76.9	80.6	49.7	257.0	10.0	210.9	152.0	136.1
Property sales and retirements (including extraordinary items)	183.7	86.3	91.2	24.8	28.6	43.7	31.1	27.1	47.9	55.3
Sales of investments (including extraordinary items)	24.0	3.7	20.5	9.6	26.2	14.3	23.1	5.3	32.9	19.7
Capital stock	18.0	7.6	18.0	11.6	19.8	20.8	.5	6.8	108.7	64.9
Other	—	1.5	9.7	19.8	4.0	6.5	2.8	17.4	8.0	44.8
	1,095.5	1,133.6	974.7	615.7	495.7	675.0	384.1	584.9	667.0	660.3

Application

Properties, plants and equipment:

Natural resources	\$ 483.4	\$ 489.8	\$ 450.7	\$ 245.0	\$ 196.0	\$ 143.3	\$ 132.3	\$ 207.3	\$ 171.5	\$ 117.5
Petroleum products	110.6	139.8	92.3	45.7	28.0	26.9	39.6	35.1	39.7	51.4
Chemicals	103.5	54.9	68.3	35.9	38.7	51.6	62.5	71.4	72.2	106.8
Other	30.3	9.4	6.7	2.4	2.0	3.2	5.0	2.8	5.8	4.1
Total	727.8	693.9	618.0	329.0	264.7	225.0	239.4	316.6	289.2	279.8
Investments	36.6	35.3	9.5	22.7	6.2	23.2	7.2	66.1	18.9	18.0
Reduction in long-term debt	113.9	76.1	225.1	73.3	58.1	144.7	109.5	78.8	186.8	106.4
Cash dividends	133.7	121.8	110.0	98.2	97.6	96.8	96.3	96.2	92.7	81.1
Other	44.6	45.4	47.3	.8	6.7	15.6	21.6	15.4	41.1	4.4
Increase (decrease) in working capital	38.9	161.1	(35.2)	91.7	62.4	169.7	(89.9)	11.8	38.3	170.6
	1,095.5	1,133.6	974.7	615.7	495.7	675.0	384.1	584.9	667.0	660.3

*Adjusted for two-for-one stock split in 1969.

	1976	1975	1974	1973	1972	1971	1970	1969	1968	1967
CHEMICALS — OPERATING REVENUES										
Feedstocks and specialty chemicals	\$ 442.2	\$ 342.1	\$ 423.6	\$ 166.3	\$ 119.2	\$ 108.2	\$ 102.4	\$ 102.0	\$ 75.8	\$ 53.7
Rubber chemicals	190.1	164.4	173.2	111.2	93.0	81.2	70.5	68.0	66.7	55.6
Fabricated products	159.6	151.9	138.5	110.0	100.0	86.6	94.0	95.3	103.6	105.9
Plastic resins	208.9	130.3	131.0	94.9	62.4	51.5	51.2	50.0	41.8	33.0
Fertilizers	77.8	114.3	160.0	158.0	100.5	91.6	72.0	69.1	67.5	74.1
Synthetic fibers	70.8	92.2	161.4	151.1	103.2	70.2	57.6	59.3	50.1	31.8
Other sales and services	80.2	62.2	131.9	90.2	51.8	48.0	34.2	32.4	30.5	20.8
	<u>1,229.6</u>	<u>1,057.4</u>	<u>1,319.6</u>	<u>881.7</u>	<u>630.1</u>	<u>537.3</u>	<u>481.9</u>	<u>476.1</u>	<u>436.0</u>	<u>374.9</u>

OTHER DATA

Shares outstanding at year-end — thousands*	76,555	76,244	76,102	75,709	75,387	74,741	74,062	74,041	73,776	69,717
Number of stockholders at year-end	120,170	126,865	131,621	135,966	153,292	166,012	172,979	157,052	145,665	139,670
Total payroll including employee benefits	\$ 550.2	\$ 528.8	\$ 478.9	\$ 415.1	\$ 387.3	\$ 352.8	\$ 335.0	\$ 326.8	\$ 328.9	\$ 312.3
Number of employees at year-end	27,797	30,506	30,802	33,429	35,265	33,280	32,208	32,660	35,359	35,724

*Adjusted for two-for-one stock split in 1969.

TEN-YEAR OPERATING REVIEW

NET PRODUCTION OF LIQUID RAW MATERIALS — thousands of barrels daily

Crude Oil

United States

Texas	50.8	54.2	56.3	57.7	57.7	54.9	54.6	51.8	53.7	54.4
Louisiana	18.4	18.0	19.6	21.5	23.3	24.8	29.6	28.1	29.3	28.3
Oklahoma	10.5	10.4	11.8	13.7	17.5	15.6	15.5	16.2	17.7	20.0
New Mexico	6.8	6.9	7.4	8.0	9.0	9.8	10.4	10.3	10.3	10.1
Wyoming	4.6	4.2	4.5	2.0	2.7	3.7	6.3	6.2	3.6	3.3
Alaska	4.6	4.2	4.1	4.7	4.5	5.5	5.6	6.9	8.9	3.9
Arkansas	4.1	4.1	3.1	2.4	2.7	2.6	2.7	2.7	1.9	1.9
Other states	15.5	16.4	16.7	12.3	12.8	13.2	14.2	15.4	14.5	12.9
	<u>115.3</u>	<u>118.4</u>	<u>123.5</u>	<u>122.3</u>	<u>130.2</u>	<u>130.1</u>	<u>138.9</u>	<u>137.6</u>	<u>139.9</u>	<u>134.8</u>

Outside United States

Europe	92.8	63.1	11.5	10.7	11.0	2.3	—	—	—	—
Africa	38.6	33.8	38.1	35.5	23.2	25.5	20.0	40.0	30.2	25.4
Middle East	5.9	6.2	9.1	9.1	12.6	14.0	12.2	2.6	—	—
Latin America	—	15.5	20.8	23.1	19.5	19.5	20.6	21.4	25.5	33.0
	<u>137.3</u>	<u>118.6</u>	<u>79.5</u>	<u>78.4</u>	<u>66.3</u>	<u>61.3</u>	<u>52.8</u>	<u>64.0</u>	<u>55.7</u>	<u>58.4</u>

Total crude oil	<u>252.6</u>	<u>237.0</u>	<u>203.0</u>	<u>200.7</u>	<u>196.5</u>	<u>191.4</u>	<u>191.7</u>	<u>201.6</u>	<u>195.6</u>	<u>193.2</u>
-----------------------	--------------	--------------	--------------	--------------	--------------	--------------	--------------	--------------	--------------	--------------

Natural Gas Liquids

United States	130.8	125.9	132.2	134.8	137.5	135.4	131.8	130.3	138.7	132.1
Europe	.3	.3	.3	.3	.3	.2	.2	—	—	—
Latin America	—	1.8	2.3	2.3	2.4	2.6	2.2	1.1	1.2	1.2
Total natural gas liquids	<u>131.1</u>	<u>128.0</u>	<u>134.8</u>	<u>137.4</u>	<u>140.2</u>	<u>138.2</u>	<u>134.2</u>	<u>131.4</u>	<u>139.9</u>	<u>133.3</u>
Total all liquids	<u>383.7</u>	<u>365.0</u>	<u>337.8</u>	<u>338.1</u>	<u>336.7</u>	<u>329.6</u>	<u>325.9</u>	<u>333.0</u>	<u>335.5</u>	<u>326.5</u>

	1976	1975	1974	1973	1972	1971	1970	1969	1968	1967
NET NATURAL GAS PRODUCTION — millions of cubic feet daily										
United States	1,247	1,312	1,433	1,481	1,534	1,566	1,591	1,436	1,429	1,460
Europe	133	125	116	94	85	58	40	14	4	4
Latin America	—	18	21	28	34	41	48	33	—	—
	<u>1,380</u>	<u>1,455</u>	<u>1,570</u>	<u>1,603</u>	<u>1,653</u>	<u>1,665</u>	<u>1,679</u>	<u>1,483</u>	<u>1,433</u>	<u>1,464</u>
WELL COMPLETIONS — Net										
United States — Exploratory	18	44	53	38	37	21	25	24	24	17
— Development	161	172	136	156	86	70	67	118	98	80
Outside United States — Exploratory	13	21	24	23	19	20	20	17	17	10
— Development	8	12	16	9	4	18	4	9	5	6
	<u>200</u>	<u>249</u>	<u>229</u>	<u>226</u>	<u>146</u>	<u>129</u>	<u>116</u>	<u>168</u>	<u>144</u>	<u>113</u>
OIL AND GAS WELLS — Net										
United States — Oil	6,202	6,191	6,184	5,806	5,795	6,004	6,316	6,457	6,387	6,589
— Gas and condensate	2,129	2,122	2,086	2,006	1,945	1,936	1,964	1,997	1,961	1,953
Outside United States — All wells	91	82	267	262	249	310	312	387	465	543
	<u>8,422</u>	<u>8,395</u>	<u>8,537</u>	<u>8,074</u>	<u>7,989</u>	<u>8,250</u>	<u>8,592</u>	<u>8,841</u>	<u>8,813</u>	<u>9,085</u>
NET OIL AND GAS ACREAGE — thousands of acres										
United States	6,570	7,197	7,203	6,792	5,793	5,382	5,273	4,709	4,577	4,333
Canada	3,174	3,452	3,511	3,166	2,820	2,246	2,174	1,867	—	—
Latin America	3,624	12,228	13,012	5,829	3,310	695	3,185	4,742	4,854	1,820
Europe	1,457	1,457	1,511	1,397	1,267	1,227	1,424	1,394	1,375	1,238
Africa	7,185	7,994	13,158	9,906	13,816	8,403	9,009	13,860	16,999	18,398
Middle East	1,753	1,753	3,031	3,031	2,893	13,852	13,852	12,252	12,079	1,393
Southeast Asia	24,960	28,564	32,086	37,348	31,018	38,852	47,106	57,627	40,000	—
New Zealand and Australia	23,678	1,511	5,335	6,072	5,969	6,272	7,290	9,290	10,833	16,978
	<u>72,401</u>	<u>64,156</u>	<u>78,847</u>	<u>73,541</u>	<u>66,886</u>	<u>76,929</u>	<u>89,313</u>	<u>105,741</u>	<u>90,717</u>	<u>44,160</u>
REFINERY RUNS — thousands of barrels daily										
United States — Crude oil	318	368	373	395	386	371	364	359	356	335
— Natural gas liquids	142	133	150	149	159	157	162	158	159	162
Outside United States — Crude oil	—	2	1	2	3	8	15	15	16	17
	<u>460</u>	<u>503</u>	<u>524</u>	<u>546</u>	<u>548</u>	<u>536</u>	<u>541</u>	<u>532</u>	<u>531</u>	<u>514</u>
REFINERY CAPACITY — thousands of barrels daily										
United States — Crude oil	323	408	408	404	404	399	398	390	390	410
— Natural gas liquids	186	165	165	165	165	165	165	165	165	165
Outside United States — Crude oil	—	—	6	4	4	24	24	24	24	24
	<u>509</u>	<u>573</u>	<u>579</u>	<u>573</u>	<u>573</u>	<u>588</u>	<u>587</u>	<u>579</u>	<u>579</u>	<u>599</u>
PETROLEUM PRODUCTS SOLD — thousands of barrels daily										
United States										
Automotive gasoline	272	304	286	299	323	311	314	294	279	252
Aviation fuels	25	24	30	27	27	27	35	38	36	36
Distillates	87	99	100	95	101	98	106	109	120	111
Liquefied petroleum gas	101	97	92	91	111	106	114	107	106	124
Other products	43	31	33	41	43	41	47	48	44	43
	<u>528</u>	<u>555</u>	<u>541</u>	<u>553</u>	<u>605</u>	<u>583</u>	<u>616</u>	<u>596</u>	<u>585</u>	<u>566</u>
Outside United States	49	56	60	84	72	88	64	36	32	22
Total	<u>577</u>	<u>611</u>	<u>601</u>	<u>637</u>	<u>677</u>	<u>671</u>	<u>680</u>	<u>632</u>	<u>617</u>	<u>588</u>
MARKETING OUTLETS ^u	15,628	17,722	18,574	21,225	23,678	24,359	25,354	25,744	26,001	26,362

PRODUCTS AND SERVICES

Sold by Phillips Petroleum Company and its Subsidiaries

PRODUCTS

Automotive gasolines

Diesel fuel

Aviation fuels — gasolines, commercial and military jet fuels, anti-icing additive

Stove oil No. 1 (Range oil)

Furnace oil No. 2

Residual fuel oils

Liquefied petroleum gases — motor fuel (propane, butane, butane-propane mixtures), commercial propane, butane, butane-propane mixtures, normal and isobutane

Kerosene

Crude oil

Natural gas

Liquefied natural gas

Lubricants — Automotive, industrial, farm and ranch, marine, and fleet lubricants; aviation and snowmobile oils

Tire and tubes — passenger car, truck, trailer

Batteries — automobile, truck and bus, farm, marine, small vehicles

Automotive accessories — anti-freeze, auto lamps, spark plugs, wiper blades, filters, belts

Fertilizers:

Anhydrous ammonia

Aqua ammonia

Ammonium nitrate

Urea

Urea-ammonium nitrate solution

Nitrate solution

Ammonium phosphates

Di-ammonium phosphate

Triple super phosphate

Phosphoric acid

Super phosphoric acid

Muriate of potash

Mixed liquid fertilizer solutions

Feed ingredients — urea feed compounds and ammonium polyphosphate

Blasting materials — industrial ammonium nitrate

Asphalt

Wax

Helium — high-purity gas and liquid, and cryogenic hardware

Rubber chemicals:

Butadiene and butylenes

Carbon black

Synthetic elastomers and plastomers

Extender oils

Mercaptans

Plastomer compounds

Construction materials:

Pavement reinforcing fabric

Plastic resins:

Polyethylenes

Polypropylenes

Polyvinylchloride

Polyphenylene sulfide

Butadiene-styrene copolymers

Rigid packaging — paperboard and plastic containers for consumer and industrial products

Rigid packaging machinery

Polypropylene packaging material — decorative and functional

Plastic tubular goods — plastic pipe and fittings, conduit and duct, corrugated conduit

Custom fabricated plastic products — for the automotive, appliance, radio and TV industries

Other plastic products:

Horticulture ware

Bakery handling equipment

Fifth wheel liner

Guy wire guard

Poultry and egg handling equipment

Coating or laminating plastics and other materials — to paper, foil and other substrates for the paper, packaging, automotive, food, locker, and specialty fields

Release paper and film

Special chemicals:

Aliphatic solvents such as pentanes, hexanes, heptanes

Benzene

Binder for solid rocket fuels

Butene-1

Calcium petroleum sulfonate

Cyclohexane

Ethylene

Furan

High-purity hydrocarbons for research and development (available in several grades of purity) — aromatics, cycloolefins, cycloparaffins, diolefins, olefins, paraffins

Hydrocarbon aerosol propellants

Methylvinylpyridine

Mixed xylenes

Odorless solvents

Orthoxylene

Paraffinic naphtha

Paraxylene

Petro-sulfur compounds

Odorants for natural gas and LP-gas

Mercaptan intermediates (for agricultural chemicals and other uses)

such as ethyl, n-propyl, n-butyl and

n-dodecyl mercaptans, and

ethylthioethanol

Sulfolane and sulfolene

2-Mercaptoethanol

Polymerization solvents

Propylene

Reference fuels

Sealant polymer

Special fuels

Sulfur

Sulfuric acid

Toluene

Viscosity index improver

Tubing and metal products:

Stainless steel and nickel alloy tubing

for aerospace and other industries

Custom fabricated parts for automotive,

refrigeration, and other industries

Patio and porch furniture

Synthetic fibers:

Olefin

Polyester

Carpet backing

Formed fabrics

Drilling mud and cement additives

SERVICES

Process evaluation service and analysis and computer control systems for petroleum, petrochemical, and chemical industries

Tanker hauling

Terminals services

LPG importing services

Engineering services

Metallurgical consulting services

Liquefied natural gas technological services

Project Management and engineering design and services including:

Mechanical, electrical, structural and instrumentation design; pipeline and storage systems; water supply; soil mechanics; materials handling and packaging; ambient and refrigerated transportation; mechanical equipment; plastics; fibers; engineering standards; fluid quantity measurement; welding; corrosion; ceramics; insulation, fire-proofing and protective coatings; elastomers; vibrations, noise and stress analyses

DIRECTORS

Harry D. Brookby,* Executive Vice President Planning and Budgeting
Clark M. Clifford,† senior partner in law firm of Clifford, Warnke, Glass, McIlwain & Finney, Washington, D.C.
Wm. C. Douce,* President and Chief Operating Officer
L. H. Johnstone,* Executive Vice President Chemicals Group
C. M. Kittrell,* Executive Vice President Petroleum Products Group
Melvin R. Laird,‡ Senior Counsellor for National and International Affairs, The Reader's Digest Association, Washington, D.C.
W. F. Martin,* Chairman of the Board of Directors and Chief Executive Officer
David B. Meeker,†‡ President and Chief Executive Officer of the Hobart Corporation, Troy, Ohio
Lloyd G. Minter,* Senior Vice President and General Counsel
Victor H. Palmieri,**† President of Victor Palmieri & Company, Inc., Los Angeles, and Chairman and Chief Executive Officer of the Pennsylvania Company, Arlington, Virginia

William Piel, Jr.,** partner in law firm of Sullivan & Cromwell, New York City

W. A. Roberts,* Executive Vice President Natural Resources Group

Robert N. Sears, Senior Vice President

W. Clarke Wescoe,†‡ Chairman of the Board of Directors and Chief Executive Officer of Sterling Drug Inc., New York City

Dolores D. Wharton,** author and member of the National Council for the Arts

Francis M. Wheat,** partner in the law firm of Gibson, Dunn & Crutcher, Los Angeles

Harold M. Williams,**‡ dean and professor of management, Graduate School of Management, University of California at Los Angeles

*Member Executive Committee.

**Member Audit Committee.

†Member Compensation Committee.

‡Member Nominating Committee.

PRINCIPAL OFFICERS AND MANAGERS

W. F. Martin, Chairman of the Board of Directors and Chief Executive Officer

Wm. C. Douce, President and Chief Operating Officer

NATURAL RESOURCES GROUP

W. A. Roberts, Executive Vice President

Edwin Van den Bark, Vice President Exploration and Production

LeRoy Culbertson, Vice President Planning and Budgeting

C. J. Silas, Vice President Gas and Gas Liquids

W. W. Dunn, Managing Director Latin America-Asia Exploration and Production

L. M. Rickards, Manager North American Exploration and Production

Earl Guitar, Managing Director Europe-Africa Exploration and Production (London)

W. R. Bohon, Manager Energy Minerals

B. M. Boyce, Manager Worldwide Drilling and Production

C. D. Davidson, Manager International Affairs and Administration

W. T. Kuepker, Manager Accounting

A. R. Rehrig, Manager Operations Analysis and Control

O. D. Thomas, Manager Worldwide Exploration

PETROLEUM PRODUCTS GROUP

C. M. Kittrell, Executive Vice President

Geo. F. L. Bishop, Vice President Refining

John E. Harris, Jr., Vice President Petroleum Supply

G. J. Morrison, Vice President Marketing

R. S. McConnell, President Applied Automation, Inc.

C. A. Mink, Manager Europe-Africa Petroleum Products (London)

D. B. Taylor, Manager Transportation

J. E. Arnold, Manager Planning and Budgeting

W. E. Barr, Manager Administration

T. C. Heritage, Manager Accounting

B. B. McDonald, Manager Operations Analysis and Control

CHEMICALS GROUP

L. H. Johnstone, Executive Vice President

R. G. Askew, Manager Petrochemical and Supply

A. J. Head, President Phillips Fibers Corporation (Greenville, South Carolina)

W. D. Payton, Manager Fertilizer

W. L. Phillips, Managing Director International Chemicals

J. N. Scott, Manager Rubber Chemicals

R. G. Wallace, Manager Plastics (Houston)

Frank Rendon, Manager Latin America Region, International Chemicals (Houston)

K. L. Smalley, Manager Europe-Africa Region, International Chemicals (Brussels)

C. M. Wilson, Manager Asia Region, International Chemicals (Hong Kong)

R. M. Dixon, Manager Administration

W. H. Guthrie, Manager Business Promotion

R. G. Rhodes, Manager Planning and Budgeting

H. F. Thill, Controller

CORPORATE STAFF HEADS

Harry D. Brookby, Executive Vice President Planning and Budgeting

Lloyd G. Minter, Senior Vice President and General Counsel

Robert N. Sears, Senior Vice President (New York City)

O. W. Armstrong, Vice President and Treasurer

Sloan K. Childers, Vice President Public Affairs

Glenn A. Cox, Vice President Management Information and Control

J. W. Davison, Vice President Research and Development

Carstens Slack, Vice President Washington Office

W. R. Thomas, Vice President Human Resources

H. D. Trotter, Vice President Engineering and Services

C. H. Trotter, Manager Management Services

OTHER EXECUTIVES

Kenneth Heady, Vice President and Associate General Counsel

C. J. Roberts, Associate General Counsel

H. B. Stead, Comptroller

Harvey W. Thompson, Secretary

M. L. Collins, Manager Tax, Insurance and Claims

R. S. Dickson, Manager Computing

D. R. Hynes, Manager Purchasing

W. R. Lusbey, Manager Aviation

H. D. Powell, Manager Operations Analysis and Control



At the annual stockholders meeting April 27 six new outside directors were elected to the Company's Board. The new directors are Melvin R. Laird, David B. Meeker, Victor H. Palmieri, Dolores D. Wharton, Francis M. Wheat and Harold M. Williams. The Board of Directors now consists of 17 members — eight Company officers and nine outside directors. Pictured from left to right, Phillips directors are:

Top left — Victor H. Palmieri, Harry D. Brookby, Lloyd G. Minter.

Top right — W. Clarke Wescoe, David B. Meeker, Dolores D. Wharton, W. F. Martin.

Center — Harold M. Williams, W. A. Roberts, William Piel, Jr.

Bottom left — L. H. Johnstone, Melvin R. Laird, C. M. Kittrell.

Bottom right — Francis M. Wheat, Wm. C. Douce, Clark M. Clifford, Robert N. Sears.



PHILLIPS PETROLEUM COMPANY
BARTLESVILLE, OKLAHOMA 74004



**PRINCIPAL SUBSIDIARIES
AND AFFILIATES**

APPLIED AUTOMATION, INC.
PACIFIC PETROLEUMS LTD.
PETROCHIM
PHILLIPS COAL COMPANY
PHILLIPS FIBERS CORPORATION
PHILLIPS PETROLEUM COMPANY EUROPE-AFRICA
PHILLIPS PIPE LINE COMPANY
PHILLIPS PUERTO RICO CORE INC.
PHILTANKERS INC.
SEALRIGHT CO., INC.
PHILLIPS CHEMICAL COMPANY,
a division of Phillips Petroleum Company

OFFICES

PRINCIPAL OFFICES

Bartlesville, Oklahoma 74004
80 Broadway, New York, New York 10005
306 South State Street, Dover, Delaware 19901

STOCK TRANSFER OFFICES

Phillips Petroleum Company
80 Broadway
New York, New York 10005

Phillips Petroleum Company
15 Exchange Place
Jersey City, New Jersey 07302

Montreal Trust Company
15 King Street, West
Toronto, Ontario, Canada M5H 1B4

REGISTRARS

Manufacturers Hanover Trust Company
40 Wall Street
New York, New York 10005

Canada Permanent Trust Company
20 Eglinton Avenue West
Toronto, Ontario, Canada M4R 2E2